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ABSTRACT

This Technical Committee Report examines four tiers of retirement income: (1) social security; (2) private and public occupational pension programs; (3) income from assets and savings; and (4) needs-tested programs. A summary of principal findings and recommendations is followed by three sections discussing the statistical basis for this report. The first section explores improvements in the economic status of the aged and points out remaining gaps. The second section examines the role of the four tiers as sources of retirement income. The final section discusses projected future population and cost trends. A more detailed discussion of committee findings and recommendations is presented in the section, "Public Policies to Encourage Adequate Retirement Income," which concludes that social security, the present and future mainstay of the elderly, should be supplemented by programs for private and non-federal government employment. The report notes that savings provide little retirement income and that retirees who can work should be helped to find and keep employment. In addition, needs-tested programs are recommended only as a last resort. A supplementary view of a committee member and an executive summary of this report are also included. (NRB)

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WHITE HOUSE CONFERENCE ON AGING, 1981

Retirement Income
Report and Executive Summary of the Technical Committee

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the 1981
White House
Conference
on
Aging

Report of
Technical Committee
on
RETIREMENT INCOME

TCR-5

NOTE: The recommendations of this document are not recommendations of the 1981 White House Conference on Aging, or the Department of Health and Human Services. This document was prepared for the consideration of the Conference delegates. The delegates will develop their recommendations through the processes of their national meeting in late 1981.

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I. INTRODUCTION*

Every American has an important stake in the economic well-being of the elderly. Millions of us are old now and the remainder, with good fortune, will be. The elderly reared us, built our factories, produced our goods, fought our wars, and did the jobs which needed doing. After a lifetime of productivity, the elderly deserve retirement with dignity and independence.

The most important ingredient in a happy and secure retirement besides good health is adequate income. Not only the elderly, but younger workers should also share a strong interest in building the kind of world they want for their own retirement, that of their elders, and that of their children. In the absence of adequate retirement income, the elderly will have to resort to help from their offspring, and, even where this is possible, it can produce a result which is burdensome for the children and demeaning for aged parents.

Our committee believes that equity and prudence dictate that the elderly receive a retirement income beyond that needed for bare subsistence. We strongly oppose efforts to cut back on the social security program due to short-run budget consideration. This misguided approach breaks the compact workers have with their government on the extent of financial protection they can plan on upon retirement. Such efforts can destroy the will of workers to support the system and thereby destroy the system.

Over the past two generations we have established a four tiered approach to providing retirement income, and this approach, while needing improvement, worked well. These tiers are (1) social security, (2) private and public occupational pension programs, (3) income from assets and savings, and (4) needs-tested programs such as the Federal Supplemental Security Income Program, which is supplemented by some states.

These tiers are complementary and not in competition. Social Security has traditionally provided the bulk of retirement income for most earners, with augmentation from the second and third tiers more likely at upper earnings levels. Needs-tested programs have provided a backstop for people who had very low and sporadic earnings over their lifetimes.

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* This report represents views of the majority of the Committee. A supplementary view follows.

We believe that the findings and recommendations of the Committee are critical for all other areas of concern to the White House Conference on Aging. Section II, a brief summary of our principal findings and recommendations therefore begins the report. The summary is followed by sections III, IV, and V, which include the statistical basis for our report with regard to recent past trends in the economic condition of the aged (Section III), the role of the four tiers in providing current sources of retirement income (Section IV), and projected future population and cost trends (Section V). Finally, Section VI contains a detailed discussion of our findings and recommendations and Section VII is our conclusion.

II. SUMMARY OF PRINCIPAL FINDINGS AND RECOMMENDATIONS

The Committee recommends:

- As an immediate goal, that retirement income for all families should be brought up to the level of the intermediate budget for families produced by the Bureau of Labor Statistics,

- That total retirement income for all should be sufficient to maintain the preretirement standard of living

  ---Social Security should be adequate in itself for those who have below average earnings, while social security plus supplementation from occupational pensions and asset income can be expected to do the job for those with higher earnings,

- Continuing full cost-of-living adjustments for social security benefits,

- Providing that social security benefits for aged survivors be based on earnings adjusted by average wage increases to the time of benefit eligibility and prices thereafter, as in the case of retired workers benefits,

- Establishing a special income supplement for the elderly aged, those over 75, who are mostly widows, to be provided through social security,

- Continuing the weighted benefit formula of social security,

- Continuing the earnings-related formula to reward effort and to help meet the goal of preserving the previous level of living,

- Continuing wage indexing of credited earnings for social security to keep pace with improved living standards,

- Continuing social security's flexible retirement age arrangements that meet the varying needs of the aging, with

  -- reduced benefits from age 62 to 65

  -- increased benefits for those who work beyond age 65

  -- payment of benefits as an annuity beyond age 70,

- Continuing social security's present retirement test which channels the bulk of benefits to the retired while providing some incentive to those who can and want to work,

- Using inducements and expanding opportunities, rather than compulsion, to prolong working life,

- Improving social security's special minimum benefit for those with long service,

- Assuring the short term soundness of social security financing by: permitting borrowing among the several social security funds, and from the general treasury to meet short-term deficits; enacting a countercyclical general revenue contribution, paying half of Medicare Part A costs from general revenues and shifting half of its payroll tax to social security retirement, survivor, and disability funding,

- Rebuilding social security reserves to 60 percent of annual benefit outgo to assure their ability to withstand the stresses of recession,

- Returning social security to its former status outside the unified budget so as to deter short term manipulation motivated by budgetary considerations,

- Establishing an independent board to insulate the program from short run political pressures,

- The improvement of spouses' and divorced persons' status in both social security and other pension schemes based on the principle that marriage is an economic partnership,

- Providing and enhancing survivor benefits in all retirement income programs,

- Requiring that in private pensions both spouses must agree before survivor benefit options are rejected, at least where they are not estranged.

The Committee finds:

- Over the past decade, the economic circumstances of the aged as a group have improved somewhat, particularly in the early 1970's, but important income gaps remain for many, particularly the very aged, women, and minorities, and overall retirement income levels need to be further improved.

- In 1979, 3.6 million persons over 65 remained in poverty, an unacceptable situation: some 29% of single elderly women--about 1.7 million--lived in poverty. About 62% of single black elderly women--about 300 thousand--were poor.

- The poverty measure understates the stark conditions in which many elderly exist, as just about a fourth of the elderly--some 5.9 million--lived in "near poverty" (125 percent of the poverty measure) in 1979.

- Social security constitutes the mainstay of the elderly population and provides invaluable, irreplaceable protection to the family at all stages of life.

- Social security faces short term and long range funding problems that are manageable; the vast and deep support for the system will produce the political support needed to provide for full financing.

- Dubious assumptions and analyses have produced predictions of a future social security crisis that are open to serious question and challenge.

- During the 1970's average social security benefits grew in purchasing power and average private pension benefits' purchasing power declined.

- Social security accounts for all or nearly all of the retirement income for over half of those age 65 and over.

- Social security, on the average, actually replaces less than half of former earnings of couples; based on a study of retirees from 1968 to 1974, for those in the lowest earnings bracket ($1,000 - $3,999) it replaced about two-thirds of former earnings; for those at the highest level ($15,000 or more), it replaced about one quarter of former earnings.

- Private pension plans cover just under half of the private work force; only one out of two retired men and one out of five retired women receive private pension benefits.

- Private pension benefits averaged $2,180 per aged household ($2,540 for couples, $2,340 for single men, and $1,400 for single women) in 1978; very few private plans are fully indexed to inflation and, indeed, few are indexed at all; despite dollar increases in benefits, average private plan benefits declined in value.

- Private pension plan coverage is sparse among women and minority group members, part-time workers, the non-unionized, and employees in small and medium sized and low pay firms.

- Outside of social security and railroad retirement, provision for spouses is uncommon and undependable; thus the income problems of older widows are a matter of especially sharp concern.

- The increasing rate of divorce exacerbates problems of assuring fair sharing of credits and benefits under all retirement income programs.

- The funding of many state and local government pension plans raises serious questions as to their future ability to honor commitments.

- Private individual savings are widespread, particularly in the form of home ownership, but generate very little income for most of the elderly.

- Unless pension plans other than social security radically improve vesting, the benefit expectations of plan participants must remain uncertain and unreliable.

- Allegations that social security inhibits savings and that private and state and local government pensions produce net savings that result in expanded productive capacity are unproven and highly speculative.

- Corporate private pensions cost the Treasury and taxpayers $20 billion per year in tax expenditures (uncollected taxes) while Keogh and IRA plans entail $2 billion per year in such expenditures.

- Current rules permitting social security/private pension plan integration may enable private plans to discriminate in favor of the higher paid corporate officials and against lower paid employees.

III. IMPROVEMENT IN ECONOMIC STATUS OF THE AGED AND REMAINING GAPS

During the decade of the 1970's, the aged in general have improved their economic status but some subgroups among them fared poorly. More improvement took place in the early part of the 1970s than in the latter part.

A. Poverty Rates and Their Variations

Poverty rates among the aged declined overall during the 1970s from 24.5 percent (4.7 million aged persons) in 1970 to 15.1 percent (3.6 million aged persons) in 1979. However, the poverty rate has improved little since 1974, hovering around 14-15 percent, and in absolute numbers, it has been between 3.3 and 3.5 million since 1973, except in 1979 when it reached 3.6 million persons. Moreover, from 1978 to 1979, 350,000 more aged persons were added to the ranks of the poor, following an increase of 56,000 aged persons in poverty from 1977 to 1978. (Table 1 summarizes this information.)

Poverty rates vary greatly among population subgroups by family status, sex and race. In 1979, while the poverty rate was 15.1 percent for aged persons of all races, the rate (1) for white aged persons was 13.2 percent, (2) for black aged persons, 35.5 percent, and (3) for aged persons of Spanish origin, 26.7 percent.

Among families headed by aged persons who were poor in 1978, (1979 data not yet available) the lowest poverty rate was 6.6 percent for all aged white families with male heads, and the highest rate was 29.4 percent for all aged black families with female heads. (Table 2)

Of all aged unrelated individuals who were poor in 1978, the lowest rate was 17.4 percent for aged white single men, and the highest rate was 62 percent for aged black single women.

The distribution of aged poor also varies widely among subgroups by family status, sex and race. In 1978, more than 3.2 million persons age 65 or older were poor. Of this total, more than 2 million or nearly 64 percent of them were unrelated individuals. Over 1.7 million were single women; they represented 53 percent of all aged poor and 83 percent of all poor unrelated individuals. In other words, almost two-thirds of poor persons were single people and aged single women comprised more than one-half of all poor aged persons and more than four-fifths of all poor single people.

TABLE 1

Persons Age 65 and Over Below the Poverty Level, 1970, 1975, 1979

Year	All Races	White	Black	Spanish Origin (1)
1970	24.5% (4,709,000)	22.5% (3,984,000)	48.0% (683,000)	(2)
1975	15.3 (3,317,000)	13.4 (2,634,000)	36.3 (652,000)	32.6 (137,000)
1979	15.1 (3,584,000)	13.2 (2,838,000)	35.5 (717,000)	26.7 (145,000)

Note: (1) Persons of Spanish origin could be white or black, so lines aren't additive.
(2) Not available.
Source: U.S. Bureau of the Census

TABLE 2

Poverty Rates in 1978 Among Aged Families and Aged Unrelated Individuals

	All Races	White	Black	Spanish Origin (1)
All aged families	8.4% (712,000)	6.8% (520,000)	25.4% (178,000)	22.0% (47,000)
Male head	7.7% (566,000)	6.6% (444,000)	23.6% (115,000)	20.7% (37,000)
Female head	12.2% (146,000)	7.9% (76,000)	29.4% (63,000)	(2) (10,000)
All aged unrelated individuals	27.0% (2,053,000)	24.1% (1,647,000)	54.0% (382,000)	43.6% (52,000)
male	20.7% (350,000)	17.4% (240,000)	38.3% (88,000)	(2) (14,000)
female	28.8% (1,703,000)	25.9% (1,398,000)	62.0% (294,000)	(2) (38,000)

Note: (1) Persons of Spanish origin could be white or black, so lines aren't additive.
(2) Not available.
Source: U.S. Bureau of the Census.

More than 700,000 families with an aged head were poor in 1978. Of these, 25 percent were black. Of all poor aged families with a female head, more than four in ten were black.

B. Analysis of Poverty Measure

The official Government poverty levels were based on food costs under the 1961 Economy Food Plan developed by the U. S. Department of Agriculture, using food consumption data for 1955. All non-food expenditures were covered simply by multiplying (in most cases) the cost of food by three. Many have considered this measure of poverty inadequate. According to a recent study, based on the Thrift Food Plan for 1975, the poverty incomes averaged some 40 percent higher than the official level for one-person households, about 20 percent higher for four-person households, and about 28 percent higher for families of 8 or more. Despite serious studies to update or improve the existing measure, the official poverty lines have been updated only by applying the yearly change in the Consumer Price Index. In 1979, the poverty level for one person 65 and over was $3,479 and that for two-person families with householder 65 or older was $4,394. Because the official poverty levels represent an outdated, emergency type of food plan, some have argued, and the Committee believes, that the so-called "near-poverty" benchmarks (125 percent of poverty levels) would be a more appropriate measure. In 1979, for example, while the poverty rate was 15.1 percent for all aged persons, the rate would be [illegible].5 percent, had near-poverty benchmarks been used. The number of persons in poverty would increase to 5.9 million from 3.6 million, an increase of 64 percent. In other words, a very large number of persons were near the poverty lines.

Another criticism of the official poverty measure is that it does not reflect in-kind transfers. In 1979, in-kind transfers represented about 27 percent of federal benefit outlays for the aged, whereas during 1971-1976, such transfers accounted for about 20 percent of federal benefits for the aged. For example, a Congressional Budget Office study indicated that the poverty rate in 1976 was only 6.1 percent among the aged based on post-tax, post-transfer income including Medicare and Medicaid. The same Congressional Budget Office study estimated that in 1976 the poverty rate among the aged would have been 14.1 percent if Medicare and Medicaid were excluded. Our Committee believes that it is illogical to include medical costs reimbursed when considering the number of people in poverty, since those unfortunate people with medical bills are no better off than those without them, whether or not such bills are reimbursed.

C. Retired Couples' Budgets

Another indication of the improving economic circumstances of the aged during the 1970s may be provided by the upward trends

in the proportion of aged couples and aged single persons that had enough incomes to meet the various levels of living as implied by the standard budgets estimated by the Bureau of Labor Statistics (BLS).

Since 1967, BLS has estimated three standard budgets for an urban family of 4 persons and, as well, three standard budgets for urban retired couples.

A retired couple is defined as a husband age 65 or older and his non-working wife. They are assumed to be in reasonably good health, self-supporting, and living in an urban area. In the autumn of 1979, the average annual costs for the three hypothetical budgets (excluding personal income taxes) for an urban retired couple were estimated at these levels: the lower budget, $6,023; the intermediate budget, $8,562; and the higher budget, $12,669. These budgets are made up of hypothetical lists of goods and services to describe the relative levels of living for a retired couple.

It may be interesting to point out the changing proportions of retired couples below and above the intermediate budget, given the attention that has been paid to the level of budget by, for example, the 1971 White House Conference on Aging, and the President's Commission on Pension Policy.

As shown below, the proportion of retired couples with incomes insufficient to meet the intermediate budget declined to 38 percent in 1978 from 49 percent in 1970, a still unacceptably high figure.

	Proportions of Retired Couples in	
Budget Levels	1970	1978
Below the intermediate budget	49%	38%
Above the intermediate budget	51%	62%
	100%	100%

D. Single Aged Person's Budget

The Bureau of Labor Statistics has suggested an equivalence scale of 55 percent to convert the retired couples' budget into a comparable budget for the single aged person. On the other hand, the 1971 White House Conference on Aging recommended that for a comparable standard budget (lower, intermediate, or higher) an aged person would require 75 percent of the dollar amount estimated for the retired couple.

The following tabulation summarizes the trends and also points out the differences between the equivalence scale of 55 percent and 75 percent.

Budget Levels	Proportions of Single Aged Persons in 55%		Proportions of Single Aged Persons in 75%	
	1970	1978	1970	1978
Below the intermediate budget	63%	50%	76%	67%
Above the intermediate budget	37%	50%	24%	33%
	100%	100%	100%	100%

Like the retired couples, the percentage of single aged persons without enough incomes to meet the intermediate budget declined and the percentage of such persons with incomes more than sufficient for the intermediate budget increased, though the picture for singles is considerably bleaker than that for couples. This becomes doubly important when it becomes evident, as in Section IV, that as age advances, single women are predominant.

E. Federal Benefits for the Aged

Increases in benefit outlays for the elderly under federal programs contributed toward the improvement in the economic status of the aged during the 1970s. Special analyses by the Office of Management and Budget show that from 1971 to 1979, federal benefits to the elderly rose from $78.9 billion to $116.4 billion (both in 1979 dollars), an increase of 47.5 percent in real terms. These benefit outlays were of two types: cash and in-kind. The former increased by 39 percent and the latter by 77 percent during the decade, both in real terms. Social security was the single largest program among the cash outlays; its payments rose from $48.6 billion in 1971 to $69.0 billion in 1979 (both in 1979 dollars), an increase of 42 percent in real terms. Supplemental Security Income (SSI) was a relatively minor program, representing 2.6 percent of all cash benefits in 1974 and only 2 percent of all cash benefits in 1979, although it was, of course, important to recipients. (Table 3).

In-kind benefits refer to Medicare, Medicaid, food stamps, subsidized public housing, and other. Quantitatively, Medicare and Medicaid were the largest programs.

TABLE 3

Federal Benefits for the Aged, by Type of Benefit: 1971, 1975 and 1979
(For years ending June 30, except for 1979 ending Sept. 30)

Type of Benefit	Benefits (billion dollars in 1979 dollars) (1)		
	1971	1975	1979
Total cash and in-kind outlays	$78.9	$109.7	$116.4
Cash benefits	61.3	87.3	85.2
Social security	48.6	69.9	69.0
Railroad employees	3.0	3.8	3.2
Federal civilian employees	4.1	7.4	6.2
Military retirement	1.3	1.5	.8
Coal miners - 2	.2	.3	1.1
Supplemental security income - 3	2.5	2.4	1.7
Veterans pensions - 4	1.6	2.0	3.2
In-Kind benefits	17.6	22.4	31.2
Medicare	13.4	17.3	24.6
Medicaid	3.4	3.5	4.3
Food Stamps	.4	1.3	.5
Subsidized public housing	.4	.5	1.6
Other in-kind benefits	(5)	(5)	.1

Notes:
1. Consumer Price Index is used to obtain benefits in 1979 dollars.
2. Prior to 1979 includes benefits for coal miners' widows only.
3. Prior to 1974, represents Federal grants to States for aid to the aged, blind, and disabled.
4. In 1979, includes compensation and pensions.
5. Not available.

Source: Unpublished data from the U.S. Office of Management and Budget, The Budget of the United States Government, annual.

IV. CURRENT SOURCES OF RETIREMENT INCOME

A. Some Characteristics of Aged Households

At present, the most comprehensive data for an analysis of the economic status of the aged are the unpublished tabulations, provided by the Social Security Administration, of the March 1979 supplement of the Current Population Survey, conducted by the Bureau of the Census.

In 1978, there were 18,179,000 aged households. An aged household for this purpose refers to either a married couple living together or a non-married person. The use of this concept for analysis permits an assessment of the economic status of all aged persons regardless of their living arrangements. That is, income data pertaining to aged persons themselves are obtained and presented, whether or not they live together as couples, alone by themselves, or in households headed by younger persons.

A good deal of diversity existed among the 18.2 million aged households in 1978. Some of the characteristics of this aged population are as follows.

(1) Older households predominated. One-half of all aged households were age 73 and over, and two-thirds were age 70 and over:

Age	Number	Percent	
65-67	3,806,000	20.9	
			] 33.5
68-69	2,285,000	12.6	
70-72	3,043,000	16.7	
			] 66.5
73 and older	9,045,000	49.8	
Total (65 and older)	18,179,000	100.0	

(2) Single persons predominated. More than 60 percent of all aged households were single people.

Marital Status	Number	Percent
Married couples	7,152,000	39.3
Non-married persons	11,027,000	60.7
All aged households	18,179,000	100.0

(3) Single women predominated. Accounting for 47 percent of all aged households, single women comprised nearly four-fifths of all non-married persons.

Marital Status	Number	Percent
Married couples	7,152,000	39.3
Non-married men	2,426,000	13.3
Non-married women	8,601,000	47.3
All aged households	18,170,000	100.0

Single Persons	Number	Percent
Non-married men	2,426,000	22.0
Non-married women	8,601,000	78.0
All single persons	11,027,000	100.0

(4) The median total money income declined with age, regardless of marital status.

Age	Married Couple	Non-married Men	Non-married Women
65-67	$11,600	$ 5,380	$ 4,350
68-69	10,500	4,240	4,220
70-72	9,780	4,960	4,080
73 and older	8,060	4,370	3,620
Total (65 and older)	$ 9,460	$ 4,580	$ 3,800

(5) Single women had lower median income than did single men, and divorced women had the lowest median income of all subgroups by marital status.

Status	Non-married Men	Non-married Women
Widowed	$4,780	$3,780
Never married	4,210	4,830
Divorced	4,620	3,520
All non-married	$4,580	$3,800

(6) Black households had lower median total money income than white households, regardless of marital status.

	Married couples	Non-married Men	Non-married Women
All units	$9,460	$4,580	$3,800
White	9,660	4,900	3,970
Black	6,560	3,120	2,690

B. Sources of Total Money Income of the Aged

In 1978, the total money income of aged units is estimated at $140 billion. The relative importance of the sources of this income for the group as a whole, and for the subgroups by marital status, are shown in Table 4.

For all aged households, by far the most important source of income came from retirement pensions. The second in importance was earnings and the third, income from assets. Public assistance and "other" represented relatively minor sources.

While all categories relied heavily on pensions, married couples, because they had earnings, were less dependent on this source than single women. First, while 50 percent of married couples' total income came from retirement pensions (mostly social security), 62 percent of single women's income was derived from this source. Second, whereas earnings accounted for 30 percent of the married couples' total income, they contributed only 9 percent to single women's income. Third, only 2 percent of married couples' income was from public assistance and the "other" category, but 7 percent of single women's income was represented by this category.

C. Sources of Total Retirement Income of the Aged

Since earnings constituted a significant part of total income (23 percent for all aged units), this source of income bears special attention. To repeat, the relative importance of earnings to total income varied: 30 percent for married coup-

TABLE 4

Shares of Aggregate Total Income of Aged Households 65 and Older by Marital Status and Sex: Percentage Distribution of Money from Particular Sources of Income, 1978

Source	Married Couples	Non-married Persons	
		Men	Women
Total Percent	100	100	100
Percent of income from:			
Retirement pensions[1]	50	58	62
Social security	34	40	48
Railroad retirement	1	2	1
Government employee pensions	5	6	7
Private pensions or annuities	8	9	5
Earnings	30	20	9
Income from assets	18	17	22
Public assistance	1	2	4
Other	1	3	3

Note: 1. Amounts of social security and railroad retirement are excluded from the separate items listed above for persons receiving both sources because the Current Population Survey (CPS) questionnaire asks for the combined amount. Similarly, amounts of government employee pensions and private pensions are excluded from the items listed above for persons receiving both sources. All pension income is included in the "retirement pensions" category.

Source: Unpublished data from Office of Research and Statistics, Social Security Administration.

les, 20 percent for single men, and only 9 percent for single women. However, only a minor proportion of persons within each of these subgroups had any earnings as a source of income: 41 percent of the married couples, 20 percent of the single men, and 13 percent of single women.

Because only a minority of aged had any income from earnings, and thus inclusion of earnings in the total income tends to obscure the contribution of retirement income programs, the following table was prepared based on special tabulations of the March 1979 supplement of the Current Population Survey which contained only retirement pensions, income from assets, and veterans benefits which are designated as "retirement income". (Table 5).

Social security was by far the most important source, accounting for 49 percent of the married couples' retirement income, 52 percent of single men's, and 56 percent of single women's.

Government employee pensions contributed 8 percent to the retirement income of each of these three groups of aged units. Private pensions or annuities represented 11 percent of retirement income of the couples and single men, but only 6 percent of retirement income of single women.

While income from assets contributed 26 percent to the retirement income of the couples and single women, it accounted for 22 percent of that of single men.

Only 1 to 2 percent of retirement income of these aged units was represented by veterans benefits.

With respect to the comparative position of aged single women, the above review suggests that (1) single women relied upon social security more than did single men or couples, (2) single women benefited from private pensions and annuities a good deal less than single men or couples, and (3) income from assets figured as importantly in single women's retirement income as it did in the couples' income, and asset income represented a greater proportion of single women's retirement income than single men's.

D. Proportions of Aged Households with Income from Specified Sources

Besides earnings, major sources of income of aged households were social security, private pensions, and income from assets. While the percentage of aged units with social security income was quite uniform (nearing 90 percent across age, race, and marital status classifications), the proportion of aged

TABLE 5

Shares of Aggregate Retirement Income of Aged Households 65 and Older by Marital Status and Sex: Percentage Distribution of Money from Particular Sources of Income, 1978

Source	Married Couples	Non-married Persons	
		Men	Women
Total Percent	100	100	100
Percent of income from:			
Retirement pensions[1]	73	76	73
Social security	49	52	56
Railroad retirement	1	2	1
Government employee pensions	8	8	8
Private pensions or annuities	11	11	6
Income from assets	26	22	26
Veterans benefits	1	2	1

Note: 1. Amounts of social security and railroad retirement are excluded from the separate items listed above for persons receiving both sources because the CPS questionnaire asks for the combined amount. Similarly, amounts of government employee pensions and private pensions are excluded from the items listed above for persons receiving both sources. All pension income is included in the "retirement pensions" category.

Source: Unpublished data from Office of Research and Statistics, Social Security Administration.

households with private pensions and with asset income varied substantially by age, race, and marital status. The following is based on the same data source as in Tables 4 and 5.

Regarding private pensions, 25 percent of aged households age 65-67 received such income, but only 17 percent of those units age 73 and over did. While 22 percent of white aged households received private pensions, only 8 percent of the blacks did. The contrast was even more dramatic when white and black aged single women were compared: 13 percent vs. 4 percent.

Concerning asset income, the percentage of aged households with such a source (about 60 percent) varied only slightly across age groups. Between racial groups, however, variations were substantial. Among married couples, for example, 74 percent of white aged households had asset income, whereas only 30 percent of the blacks did. The difference was more striking in the case of single women: 62 percent of the whites, but only 18 percent of the blacks had income from assets.

E. Role of Social Security

Social security is more than an income replacement program for retired workers. It is an important source of income for American families. Three basic types of cash benefits are available: old-age, survivors, and disability.

In November 1980, 35.6 million persons received social security. They were distributed as follows:

	Persons	Percent	
Retired workers	19,524,000	54.8	]62.8
Disabled workers	2,860,000	8.0	
Spouses (dependent or surviving)	8,445,000	23.8	
Children (dependent or surviving)	4,660,000	13.0	
	35,598,000 (1)	100.0 (1)	

Note: (1) Includes parents and special age-72 beneficiaries.

Toward the end of 1980, only slightly more than one-half (55 percent) of all the beneficiaries were retired workers. The remaining 45 percent comprised disabled workers (8 percent), dependent or surviving spouses (24 percent), children

(13 percent), and surviving parents of workers and special age-72 beneficiaries (a negligible percentage).

The average monthly benefits for retired workers, disabled workers, and aged widows and widowers in November 1980 were:

	All beneficiaries	New beneficiaries
Retired workers	$341	$360
Disabled workers	371	392
Aged widows and widowers	311	311

The pattern of distribution of social security cash benefits among types of beneficiaries varies widely by race, according to unpublished data from the Social Security Administration, as shown in the following table. (Table 6)

(1) At the end of 1979, about two-thirds of white, but only one-half of black beneficiaries were retired workers and their dependents.

(2) Disability insurance was more important to blacks than whites.

(3) More blacks received benefits as survivors than whites.

(4) Benefits of those of other races generally fell between the whites and the blacks.

F. Role of Private Pensions

While social security is today the major source of retirement income, private pension plans are a very important supplement for some workers, and they have a considerable effect on the income of an increasing number of the elderly. Private pensions have shown substantial growth since 1950, when pension plans first became an accepted issue for collective bargaining. Although they continued to grow in the 1970s, the pace was much slower, and, as discussed below, serious gaps remain.

Private pensions continued to grow in the 1970s, though at a slower pace. In 1970, 26.3 million were covered workers, and in 1975, the number grew to 30 million. In 1970, nearly 4.8 million received benefits, and in 1975, the number increased to about 7 million. In 1970, benefits paid amounted to $7.4 billion, and in 1975, more than $15 billion.

TABLE 6

Percent Distribution of Social Security Cash Benefits by Type of Beneficiaries and by Race, End of 1979

Beneficiaries	White	Black	Other Races
As retired workers	55.8	41.8	42.1
As disabled workers	7.7	12.1	8.3
As dependent spouses	10.3	6.6	10.5
As surviving spouses	14.3	11.7	10.0
As dependent children	5.2	11.7	14.7
As surviving children	6.7	16.1	14.7
	100.0 (1)	100.0 (1)	100.0 (1)

Note: (1) Totals include parents' benefits and special age-72 benefits. Components may not add to 100% due to rounding.

Source: Unpublished data from Division of OASDI Statistics, Social Security Administration.

From 1972 to 1979, coverage rates for full-time workers in the private sector increased from 48 percent to 51 percent -- a small growth in seven years. Given the fact that the most accessible groups of workers had already been covered and the difficulty for a large proportion of workers primarily in small or medium size businesses to obtain coverage, slow growth should not be surprising. There was some evidence that the growth of private pension coverage in the 1960s was largely because of the growth of employment in companies where pension plans had already existed.

1. Coverage Gaps by Sex, Race, and Age

Coverage of workers under private pension plans differs widely by sex, race, and age. According to a study of coverage and vesting among workers in the private sector based on data from the 1979 Survey of Pension Plan Coverage, 43 percent of all private wage and salary workers

aged 14 and over were covered by a pension or retirement plan on their current job. The coverage rate for women was substantially lower than for men: 31 percent compared to 50 percent. Nearly 80 percent of workers without pension coverage were working in jobs where pensions were not available to any employees, while 20 percent of non-covered workers were working in jobs where pensions are provided but were not available to them because of age, service, and annual work requirements. Some of these 20 percent of non-covered workers might be covered when they satisfy these requirements, but others in this group might never be covered because their occupation was excluded from the pension plans. The gap of coverage between men and women may be largely explained by the fact that a greater percentage of women worked in industries with low participation in pensions (such as trade and service), in occupations that are not typically covered by pensions (such as sales, clerical, service), in non-unionized employment, or in small- or medium-size establishments.

Black workers are less frequently covered by private pension plans. According to an analysis of the data from the Retirement History Study, a 10-year panel study by the Social Security Administration, only 20 percent of black workers aged 58 to 63 in 1969 were covered by a private pension on their longest job, compared to 43 percent of white workers. Among the retirees in 1974, 5 years later when they became 63 to 68 years of age, 52 percent of the covered black retirees and 77 percent of the covered white retirees actually received private pension benefits.

Age is another factor. Workers under 25 are much less likely than older workers to be covered. But coverage rates between men and women persist regardless of age. Special tabulations of a Household Survey conducted in late 1979 by the President's Commission on Pension Policy show that 33 percent of young workers (under age 25) were covered by private pensions, compared to 47 percent of workers older than age 25. Within each age group, coverage rates were lower for women than men: in the under-25 age group, the rate for women was 20 percent, compared to 33 percent for men; in the over-25 age group, the comparable rates were 36 percent (women) versus 56 percent (men).

2. Vesting Gaps by Sex, Race, and Age

While the coverage rate is important, vesting may be even more so from the standpoint of receipt of pensions. Because of eligibility requirements such as age and length of service and the like, a worker may be covered on current employment but may not be entitled to pension benefits if these requirements are not met. Vesting refers to the

right of a participant in a pension plan to establish future entitlement to pension benefits upon leaving the job and therefore the plan before becoming eligible for retirement benefits.

As with coverage rates, the extent to which workers are vested also differs by sex, race, and age. In 1979, 48 percent of workers covered by private pension plans on their current job were vested (had vested rights to their benefits), compared to 32 percent in 1972. Like the gap in coverage between men and women, there was a "vesting gap": the vesting rate for male workers was 51 percent, and that for female workers was 41 percent. The vesting gap was not as severe, however, as the coverage gap, pointed out earlier.

In 1974, 48 percent of the retired black workers with private pension coverage did not receive benefits, compared to 23 percent of white covered workers.

The vesting gaps in either case (between men and women, or between whites and blacks), may be largely attributable to the tendency of women and blacks to have shorter job tenure and to have terminated their longest job earlier than men workers and white workers. In other words, more women and black workers lose private pension benefits because they fail to meet the eligibility requirements, especially the length of service requirement.

The probability of vesting improves with age of the worker. In 1979, the vesting rate among workers under age 25 was 23 percent; it increases to 29 percent, 46 percent, 63 percent, and 68 percent for age groups of 25-29, 30-44, 45-54, and 55 and older, respectively.

3. Inflation

The role of private pensions is seriously threatened by inflation. The decade of the 1970s witnessed a very rapid rate of inflation; the Consumer Price Index (CPI) rose 87 percent between 1970 and 1979. Unlike social security, almost no private pension plans provide automatic cost-of-living adjustments to the full extent of CPI increases. A small number of private plans allow limited cost-of-living adjustments on an automatic basis. To the extent that adjustments are made, private plans provide ad-hoc or discretionary changes.

According to a study based on the data from the Retirement History Survey of the Social Security Administration, during 1970 and 1974, average private pension benefits increased slightly, but their purchasing power declined because of inflation. During 1970-74, social security benefits increased by 47 percent, compared to the rise in CPI

of 23 percent. The combination of the decline of the purchasing power of private pension benefits and the rise in the purchasing power of social security benefits meant that the relative role of private pensions had become smaller vis-a-vis social security. The study estimated that, for the fully retired social security beneficiaries who received private pensions, for example, the median ratio of private pension to total retirement benefits declined from 54 percent in 1970 to 45 percent in 1974. Much higher rates of inflation in subsequent years has had the effect of reducing the contribution that private pensions made toward retirement income, as well as worsening the standard of living of the retirees. If high inflation persists, this lowering of living standards will continue for workers dependent on private pensions.

G. Role of Private Saving

A major issue in retirement income policy is the relative roles of social security, private pension, and private saving. As pointed out earlier, social security is a basic program, and private pensions have made significant progress in the last several decades.

Private saving has been the weakest component in the economic security machinery, yet it has been traditionally regarded and increasingly advocated as an additional source of financial support in old age.

As earlier indicated, even though asset income represents an important percentage of the income of the aged as a group, and even though a large proportion of the aged had income from this source, the median amounts of asset income were quite low. In 1978, they were $1,230 for couples, $700 for single men, and $760 for single women.

One major reason is that the value of liquid or financial assets in the hands of the aged is typically small or modest. Without diminishing the value of the capital, at an interest rate of 5 percent, $1,230 of interest income requires a capital of $24,600, and $760 of interest income requires a capital of $15,200. Another problem is the illiquid nature of home equity. Conversion of a home into cash requires its sale, a disagreeable approach to many. While this has led to innovative approaches to allow borrowing against home equity, this approach has only begun and difficulties remain.

There are now in existence some tax-induced mechanisms to encourage retirement saving: Keogh Plans and Individual Retirement Accounts (IRAs). Keogh Plans allow self-employed persons to set aside tax-deductible saving up to $7,500, or 15 percent of income, and IRAs permit workers without a private pension plan to set aside tax-deductible saving of up to $1,750 or 15 percent of income.

Unpublished data from the Office of Tax Analysis of the Treasury Department indicates that the proportion of individuals utilizing IRAs increased as income rose, as shown in the following for 1977, with similar patterns for 1975 and 1976.

Adjusted gross income class	Percent utilizing IRAs
Under $5,000	0.2%
5,000 - 9,999	1.4
10,000 - 14,999	3.3
15,000 - 19,999	5.4
20,000 - 50,000	21.8
50,000 or over	52.5
Total	4.6%

H. Earnings Replacement Rates

In considering income adequacy and security, both the concepts of assuring minimum adequate income, discussed above, and the concept of earnings replacement rates are useful.

An earnings replacement rate refers to the part of lost earnings that is replaced by a pension. This simple ratio is rather difficult to measure, however. For example, how should "lost earnings" be counted? Which benefit receipts should be considered?

Despite measurement problems, a number of estimates are available. For example, in a 1979 study of earnings replacement rates of couples retiring in 1968 to 1974 based on the Retirement History Survey by the Social Security Administration, the replacement rate was obtained by dividing social security benefits of husband and wife by average earnings in the highest three years of the ten before entitlement to benefits. Some highlights of that study are as follows:

(1) The median replacement rates for retirees were 32 percent for married couples with one retired worker's benefits only, 43 percent for couples with two retired workers, and 49 percent for couples with the spouse as a dependent. The median replacement rate for retired workers was 39 percent for non-married men and 45 percent for non-married women.

(2) The earnings replacement rates provided by social security for retiring couples showed an overall rate of 48 percent. It varied from 63 percent for those with preretirement earnings at the lowest level ($1,000-$3,999) to 26 percent at the highest level ($15,000 or more).

(3) For persons or couples with higher incomes, second pen-

sions (private or government plan) are increasingly common. Couples with second pensions had a median total replacement rate of 62 percent.

According to a simulation study of pension replacement rates for retirees between 1979 and 1982, all individuals in the sample would be eligible for social security retirement or spouse benefits. But only 47 percent of men and 35 percent of women would be eligible for private pensions as well. The replacement rates for a large proportion of both couples and non-married persons are projected to fall below the 60 percent replacement level. Dramatic differences are estimated between those who receive social security only and those who are also entitled to another pension (dual pension recipients): Among couples, while 23 percent of those with social security only would fall into the poor/near-poor category, only 5 percent of the dual pension recipients would. By contrast, among non-married persons, 77 percent of those receiving only social security would be poor or near-poor, compared to 26 percent of the dual pensioners.

With respect to the replacement rates under public employee pension plans, there are also differences between employees not covered by social security and those covered by social security. According to the 1978 Pension Task Force Report on Public Employee Retirement Systems, House of Representatives, employees not covered by social security had average replacement rates of just under 50 percent in 1976, regardless of salary levels. On the other hand, average replacement rates for those who were covered by social security as well, ranged from about 60 to 80 percent, according to salary levels, with higher replacement rates at lower salaries.

I. Retirement Income Over Time

Even though income may be adequate at the start of retirement for some persons, it will become inadequate with the passage of time for several reasons. (1) Effect of inflation. If pension income is not adjusted for the rise in the cost of living, then the purchasing power of a given amount of retirement income will erode with inflation. While social security benefits are indexed for increases in the Consumer Price Index, though with a time lag, as mentioned above, private pensions seldom are, almost none fully. As a result, the role of private pensions will diminish as a form of retirement income in an inflationary era. Moreover, income from assets is not explicitly indexed for inflation, and such income, unlike social security, is subject to income taxes. Thus, the already small role of private savings for many retirees will be diminished still further. (2) Effect of productivity advancement. To the extent that pensions already awarded are not adjusted for the overall rise in income due to economic growth, the relative income positon

of the retired vs. those still working will deteriorate, thus creating the feeling of relative deprivation. (3) Effect of increased longevity of the individual aged person. With increasing age, there may be increased expenses of the very old for personal care and health care costs due to greater incapacity and illness. (4) Effect of greater longevity of the aged as a group. When mortality improvement increases the length of time for the average person to receive retirement benefits, a larger total benefit payout will be required. To the extent that retirement income is based on transfers of income from the young to the old (intergenerational transfers), it will require more taxes or contributions on the currently working population. However, as explained in the latter part of this report, such greater amounts of taxes or contributions as may be required may well be a lesser burden on the workers if the rate of economic growth (productivity) is increasing. In the case of advance funding of pension plans, it should be noted that more accumulations will be required.

V. POPULATION TRENDS AND OLD AGE, SURVIVORS, AND DISABILITY (OASDI) COSTS

A. Number of Aged

The aged (65 or older) population is expected to grow in absolute numbers and in relation to the rest of the population. In absolute numbers, the estimated numbers of aged persons in 1980, 2000, 2020, and 2040 are 26 million, 36 million, 52 million, and 67 million, respectively. There are more aged women than aged men. At present, nearly six in ten aged persons (or more than 15.5 million) are women, compared to four in ten (or not quite 10.5 million) men.

B. Longevity by Race and Sex

Increasing longevity (or improvement in mortality rate) over the years has been one factor contributiog to the large elderly population now and in the future. In 1980, life expectancy at age 65 (the years of remaining life when a person has reached age 65) was 13.8 years for men and nearly 18 years for women. The expectation of life is projected to rise in the future. By 2020, the life expectancy for men at age 65 is estimated to be almost 15 years and for women at the same age, more than 19.5 years; by 2050, the corresponding numbers are projected to be 15.5 years for men and 20.5 years for women. These projected rates are substantially higher than the comparable rates in 1940. In that year, the life expectancy for men reaching age 65 was little more than 12 years, and, for women, little more than 13.5 years. The following tabulation summarizes past trends and future projections.

At age 65	Expectation of life in years				
	1940	1980	2000	2020	2050
Women	13.6	18.0	19.0	19.6	20.5
Men	12.1	13.8	14.6	15.0	15.5
Difference	1.5	4.2	4.4	4.6	5.0

Mortality rates at age 65 and improvements in mortality rates during the last three to four decades were substantially different by sex, but were quite similar by race, as shown in Table 7.

Females live longer than males. White females outlived white males by 1.5 years in 1939-41, and in 1977, by 4.5 years. Females of black and other races outlived non-white males by 1.8 years in 1939-41, and in 1977, by 3.8 years. On the other hand, white males and males of black and other races share essentially the same mortality rates over the years. Non-white females had slightly shorter life expectancy than white females in 1977, and they have not improved their mortality rates as much as have white females.

By contrast, it is interesting to note that life expectancies at birth differ rather substantially by sex and race. (Table 8). During the last 30 to 40 years, non-whites of either sex have improved their life expectancies at birth; non-white males, by 13 years and non-white females, 18 years. Despite these improvements, they were still outlived by whites in 1977.

C. The Aged Population as a Proportion of the Total Population

America is aging. The proportion of aged persons in the total population is 11.2 percent at present. It is expected, based on 2.1 fertility rate (an average of 2.1 children born per woman, a rate needed to maintain today's population), to rise to 13.2 percent in 2000, 17.2 percent in 2020, and 20.4 percent in 2040 and thereafter.

These figures are based on the assumptions used in the 1980 Trustees Report of the Social Security Trust Funds, under the intermediate-cost assumptions, the so-called Alternative II estimates. The report also uses a more optimistic and a more pessimistic set of assumptions. Under these assumptions, the aged would be increasing at more than twice the rate of the total population: almost 39% versus 17%. After the year 2000, the growth rate in the aged population is estimated to be between 3.5 and 4 times the growth rate of the total population.

TABLE 7

Average Number of Years of Remaining Life at Age 65 by Race and Sex

White

Year	Males	Females	Females live longer than males by
1939/41	12.1	13.6	1.5
1949/51	12.8	15.0	2.2
1959/61	13.0	15.9	2.9
1969/71	13.0	16.9	3.9
1975	13.7	18.1	4.4
1977	13.9	18.4	4.5
[Increase over period, 1977-1939/41	1.8	4.8	3.0]

Black and Other Races

Year	Males	Females	Females live longer than males by
1939/41	12.2	14.0	1.8
1949/51	12.8	14.5	1.7
1959/61	12.8	15.1	2.3
1969/71	12.9	16.0	3.1
1975	13.7	17.5	3.8
1977	14.0	17.8	3.8
[Increase over period, 1977-1939/41	1.8	3.8	2.0]

Source: Statistical Abstract of the United States, 1979, Table No. 101.

TABLE 8

Average Number of Years of Expected Life at Birth by Race and Sex

White

Year	Males	Females	Females live longer than Males by
1940	62.1 years	66.6 years	4.5 years
1950	66.5	72.2	5.7
1960	67.4	74.1	6.7
1970	68.0	75.6	7.6
1977	70.0	77.7	7.7
[Increase over period, 1940-1977	7.9	11.1	3.2]

Black and Other Races

Year	Males	Females	Females live longer than Males by
1940	51.5 years	54.9 years	3.4 years
1950	59.1	62.9	3.8
1960	61.1	66.3	5.2
1970	61.3	69.4	8.1
1977	64.6	73.1	8.5
[Increase over period, 1940-1977	13.1	18.2	5.1]

Source: Statistical Abstract of the United States, 1979 Table No. 100.

The rates of increase are greater for the older among the elderly: those 75 to 84, and those 85 and over. Moreover, the oldest females (age-85 plus) are estimated to grow at a faster rate than the oldest males.

D. Implications of the Growth of the Very Aged Population

There are numerous implications of the growth of the very old among the aged, defining the very old as either age 75 and over or 85 and over among which are the following: (1) longer years in retirement, (2) greater length of time dependent on retirement income, (3) greater effect of inflation on the purchasing power of a given amount of income at the start of retirement, (4) a greater differential between the income of the retired and the income of the active population when the workers enjoy rising wage income as in the past due to growth rate of wages exceeding that of prices, (5) lesser opportunity for employment and thus small opportunity to rely on earnings as a source of income in old-age, (6) greater incidence of health problems, physical and mental, (7) changing expenditure needs, involving health care and housing in particular, (8) greater need for long-term care both in institutions and at home, (9) less reliance on care by family members when the children would themselves be retired or elderly and with impaired capacity.

While the elderly are generally defined as those age 65 and older, and although attention has just been paid to the very old, it is necessary to point out that a significant number of persons are "elderly" before age 65 because of disability or deterioration of physical and/or mental strength. To a certain extent, early retirement at age 62 under social security and retirement at age 60 or earlier under military, police, and firefighters retirement programs recognize this phenomenon.

E. Dependency Ratios

Population aging poses a critical issue for the support of the aged in the future. One convenient index of support costs for the increasing proportion of the aged is that of the "aged dependency ratio" (generally defined as population 65 and over to population 20 to 64). Since such a ratio is most often used in connection with social security financing, it is well to recognize that dependency is a broader issue than social security costs. Projected rising dependency ratios result principally from a host of demographic and economic factors which affect the society at large with impact on the social security system.

Under the 2.1 fertility assumption, the aged dependency ratio is projected to increase dramatically over the 75-year period, as the generation of post World War II starts to reach 65 in the early part of the next century.

Well, this much is certain, much less certain is the widely held belief that shortly after the turn of the century, just at the time the number of elderly starts to increase so rapidly, the growth in the 20 through 64 year old population --ordinarily thought of as the working age population--will come to a virtual halt and remain stable for many years. It is the possibility of the relative growth in the number of retirees compared to those at work that causes concern about long-range financing of social security. Between now and about 2005 there continues to be a major growth in the 20 to 64 year old group--again a near certainty--so that the ratio of those over 65 to this younger age group changes relatively little during this period. Thus there is no significant demographic problem for social security for the next 25 years at least. The proportion taking out and the proportion paying in will probably change very little.

It is of great importance to recognize that the very assumptions which produce an increasing ratio of older people to those at work also result in a declining ratio of children to those at work. If instead of the ratio of those over 65 to those 20 through 64, we take what has been called a total dependency ratio, the ratio of those over 65 plus those under 20 to the group 20 through 65, we get a much different picture than if we look only at the elderly. It just isn't true that reasonable demographic assumptions show a larger number of dependents for each worker after the early part of the next century. Instead what they show is a shift in the composition of the dependency group--fewer children, more elderly. This is shown in Table 9.

F. Projection Uncertainties

While the absolute size of the aged population in the future may be predicted with a fair degree of certainty, because persons becoming aged in the next 50 years or so have already been born, the relative size of the aged in proportion to the total population can be forecast with much less precision, because it involves future fertility rates.

Fertility forecasting is fraught with uncertainty. The major difficulty in predicting fertility over a period of time is that of anticipating the family size desired by future generations. Such a prediction requires a knowledge of long-term trends in socio-economic and psychological factors and an understanding of the net effects of these factors on fertility. Unfortunately, social scientists have sharply conflicting forecasts at present.

There are two schools of thought: one expects fertility rates to continue to decline, and the other anticipates the opposite. The major fertility-reducing factors are: increases in female labor force participation rates, delay in the age of first marriage, increase in divorce rate, and improved technology

TABLE 9

Number of Persons in Age 20-64 Population
Per Each Person in Under Age-20 and Over Age-64
Population

July 1 of Year	Per Each Person in under Age-20 Population	Per Each Person in over Age-64 Population	Per Each Person in Both Populations
1960	1.35	5.75	1.09
1965	1.30	5.49	1.05
1970	1.40	5.43	1.11
1980	1.80	5.12	1.33
1990	2.04	4.64	1.42
2000	2.10	4.46	1.42
2010	2.24	4.25	1.47
2015	2.22	3.79	1.40
2020	2.16	3.30	1.31
2025	2.11	2.89	1.22
2030	2.08	2.64	1.16
2035	2.09	2.60	1.15
2040	2.11	2.65	1.17
2055	2.10	2.67	1.17

Note: Based on intermediate-cost assumptions.

Source: Social Security Administration.

involving, and tolerant attitude toward, contraception and abortion. On the other hand, those who expect an increase in fertility in the 1980s and 1990s base their theory on the observation that over the last several decades fertility has been closely associated with the relative size of the young adult age group. People born in the low fertility years of the 1930s had high fertility in the 1950s, while people born in high fertility years had low fertility in the 1970s. Of course, there are those who hold views between these two extremes. Given the profound differences of prediction for future fertility, the uncertainty involved in the prediction of rising aged dependency ratios in future years must be recognized.

Dependency ratios are affected by other considerations as well. Because dependency ratios are used for comparing dependent population to the working population, a dependent ratio would be misleading if the comparison is made by the population numbers in the relevant age groups (such as 65 and over and 20 to 64) without reference to work status of persons in the respective categories. Some individuals in the 65 and over and under-20 groups are active workers, while some persons in the 20 to 64 age category are either not in the labor force, unemployed, disabled, or retired. Moreover, the proportions of workers to non-workers in each of these broad age groups are subject to change over time. Another factor that has the potential of affecting the dependent ratio is the level of net immigration, legal and illegal.

In sum, the dependency ratios and costs in the future are affected by a number of demographic and economic factors: (1) productivity rates, since even slight increases in productivity and economic growth may well mean a smaller real burden on workers to support the aged in the future, (2) fertility rates, (3) mortality rates, (4) disability rates, (5) retirement ages, (6) female workers, (7) family structure changes, (8) unemployment rates, (9) inflation rates, and (10) immigration levels. Dependency ratios that are based solely on population sizes in selected age groups do not capture the effects on aging costs of developments in these factors. Moreover, the ability of the working population to bear the burden is also affected by their preferences or willingness to be taxed, a willingness which has been dramatically verified in various recent polls.

G. OASDI Long-Range Costs

According to official estimates based on the aforementioned intermediate-cost assumptions, the cost of the old age, survivors, and disability (OASDI) program is projected to be relatively constant at between 10 percent to 11 percent of taxable payroll (earnings subject to social security taxes) until about the year 2010. After that, it is projected to increase rapidly and to peak at about 17 percent of taxable

payroll in the year 2035. Over the 75-year evaluation period from 1980 to 2054, the system is estimated to result in a deficit of 1.58 percent of taxable payroll. During the first 50-year period, 1980 to 2029, the system is expected to be in approximate balance, with the surplus in the first 25 years offset by the deficit in the second 25 years. During the third 25-year period, 2030-2054, however, the expected deficit will amount to 4.57 percent of taxable payroll. Table 10 gives long-range costs.

TABLE 10

Estimated Expenditures Under OASDI System Under Alternative II and Comparison with Scheduled Tax Rates, 1980-2054
[As percent of taxable payroll]

Period	Estimated Expenditures OASI	DI	OASDI	Scheduled OASDI Tax rates (1)	Difference
25-yr. averages					
1980-2004	9.56	1.27	10.83	11.85	1.02
2005-2029	11.92	1.66	13.58	12.40	-1.18
2030-2054	15.36	1.62	16.97	12.40	-4.57
75-yr. average					
1980-2054	12.28	1.52	13.80	12.22	-1.58

Note: (1) Combined employer-employee tax rates.

Source: Office of the Actuary, Social Security Administration. (Unpublished data. Computation dated December 11, 1980, based on mid-year budget review assumptions.)

Although improvement in mortality rates is also a factor, the long-range deficit is principally caused by the aging of the population due to the changing fertility rates during the last several decades. As discussed earlier, a good deal of uncertainty surrounds fertility projections. Furthermore, the effect of the aging population on the cost of social security will not be felt until some forty to fifty years from now.

Akin to the concept of dependency ratios earlier discussed, the ratio of covered workers to beneficiaries is widely cited insofar as OASDI is concerned. It is commonly quoted that today there are 3.2 workers per OASDI beneficiary. According to official estimates based on the intermediate-cost projection,

this ratio of 3.2 is expected to decline continuously to reach 2.0 in 2025 and thereafter, as shown in Table 11.

There is a common misconception, however, that these ratios (3.2 in 1980 and 2.0 in 2025) apply to the aged portion of the beneficiary group. The misconception arises out of the fact that these ratios refer to all beneficiaries under OASDI. As also shown in the table, if only aged beneficiaries (all those age 62 or over) are considered, then there are today more than 4 active workers for each older recipient of cash benefits.

This ratio is estimated to decline to 2.3 in the year 2030 and thereafter.

Furthermore, if only retired and disabled workers were included in the beneficiaries, the ratio in 1980 is 5.2. In other words, at present there are more than 5 active workers for each retired and disabled worker. This ratio would reach

TABLE 11

Covered Workers Per OASDI Beneficiary and Per Aged Beneficiary, 1980-2055

Year	Per OASDI Beneficiary	Per Aged Beneficiary
1980	3.2	4.3
1990	3.2	4.0
2000	3.0	3.8
2010	2.7	3.5
2015	2.5	3.1
2020	2.2	2.8
2025	2.0	2.5
2030	1.9	2.3
2040	1.9	2.3
2055	2.0	2.3

Source: (1) Unpublished data from Office of the Actuary, Social Security Administration.

2.5 in 2025 and later, based on the intermediate-cost estimate.

In sum, the preceding pointed out 3 different ratios: (1) covered workers per beneficiary (all recipients of social security cash benefits), (2) covered workers per aged beneficiary (defined to include all cash-benefit recipients age 62 and older), and (3) covered workers per beneficiary as retired or disabled worker. Regardless of which ratio is under discussion, one must remember that these are projections. There are some who argue that official estimates based on the intermediate cost assumptions are too pessimistic or optimistic. The Committee believes that productivity increases are likely to make dire predictions by some concerning the future burden of supporting the elderly unsound.

One final issue of interest is that of annual net immigration. The official estimates of social security costs assume a net immigration of 400,000 persons a year. This is low compared to recent trends, and the true picture could lead to a far lower deficit. Because the level of net immigration will affect OASDI costs, the Office of the Actuary of the Social Security Administration has estimated the reduction in the actual deficits of the system under different levels of net immigration. The two higher levels of net immigration are 800,000 and 1,200,000, double and triple, respectively, the level of 400,000 persons assumed in the basic assumptions.

According to the latest unpublished estimates by the Office of the Actuary, Social Security Administration, the 75-year (1980-2054) deficit under the intermediate-cost estimates would be 1.58 percent of taxable payroll, under the assumption of annual net immigration of 400,000 persons. The 75-year deficit would be reduced to 1.04 percent and 0.58 percent of taxable payroll, with 800,000 and 1.2 million annual net immigration, respectively.

VI. PUBLIC POLICIES TO ENCOURAGE ADEQUATE RETIREMENT INCOME

A. The Grave Inadequacy of Retirement Income

1. Many Below Poverty Line

The Committee recognizes that some economic improvements for the aged have been made in the last decade. However, much remains to be done. We regard the "poverty" line as an inappropriately low measure of well-being, yet substantial numbers of elderly persons, especially widows over age 75, receive income below the poverty line. Even with this appallingly inadequate measure--$3,479 for a single person and $4,390 for a couple in 1979--more than 15% aged 65 or over were in poverty. Some groups fared especially badly; almost three out of every 10 unmarried

and widowed women over 65 lived below the poverty line.

2. Many Below Near-Poverty Measure

In an effort to alleviate the harshness of the poverty line, a "near-poverty" measure--125% of the "poverty" measure--is sometimes used, and, as previously noted, the Committee believes that this is an appropriate measure. Applying that yardstick to 1979 data, just about 1/4 of the elderly--24.5%--fall below the near-poverty line--for a total of 5.9 million persons over 65.

3. Many Below BLS Intermediate Budget

Long labor should earn a retirement standard of living that provides necessities and some amenities. A quite modest measure for such a standard is the BLS "Intermediate Budget"--$4,315 for single persons and $7,846 for couples in 1978. As pointed out above, the income of more than one third of couples (38%) fell below that still Spartan measure. If the single person's budget were set at 75% of the couple's budget, a realistic figure in our estimation, some 67% of single persons' income fell below the Intermediate Budget level.

B. Benefits

1. General Principles

Of all major programs, social security provides the most dependable retirement income. It constitutes the largest single source of benefits with no close competitor, public or private. For retirees who had low paid jobs, it normally provides all or almost all retirement income. For the bulk of the retired population it provides a major source of income. Because social security benefits are indexed to the cost of living, they provide an even larger portion of individual's retirement income the longer one is in retirement.

The Committee believes that these are the proper roles for social security. For the future, these roles should be sustained. Given the uncertainties and unequal impact of other retirement systems, public and private, and the efficiency, fairness and low administrative costs of social security, we believe that the role of social security should not be diminished. Rather it should be strengthened. Savings, private pensions and like governmental programs should continue to play their current roles, now usually as a supplement to social security. We believe that for most retirees improvement of social security benefits provides the fairest, most dependable and least costly way to make progress toward the retirement income goals stated--preservation of pre-retirement living stan-

dards. It should continue to provide all or most of the retirement income for those in lower income groups and a major segment of retirement income for higher income groups.

2. Benefit Formula

a. Earnings related/weighted

Those with low earnings normally need a high rate of income replacement in retirement because all or almost all of their income is needed to obtain necessities like shelter and food. As income increases, a progressively smaller portion goes for essentials. Thus, social security's historic weighting of benefits to replace a larger portion of low former earnings constitutes sound public policy that should be continued. Weighting offsets to a degree social security's historic equal tax rates for all income levels, which departs from the principle of progressive taxation. This is one of the many harmonizations of competing principles that makes social security fair and so widely accepted.

All income levels should participate in improvements in benefits. The earnings-related basis for benefits assures that higher earnings produce higher benefits, in keeping with our economy's system of incentives and rewards for effort and productivity (as reflected in higher pay). We strongly endorse the proposition that retired upper income earners should get "their money's worth" in social security protection and benefits.

b. Replacement rate

Closely related to the weighted formula is the question of replacement rates--that is, benefits measured against pre-retirement earnings. Social security by itself should pay benefits to those regularly earning low pay sufficient to provide necessities. Beyond that point, lower rates of earned income replacement may be justified by (1) the need to spread available resources and (2) possibly reduced expenditures resulting from age and retirement, such as lower tax rates and perhaps lessened work-related expenses. The tax exemption of social security benefits make them as valuable as higher earned cash income. However, the higher up the income scale one is, the greater the likelihood of receiving income from some other supplementary source.

Some analysts assume savings of work-related expenses such as transportation, food and special clothing. However, these "savings" may be less than assumed.

For example, most blue collar workers and many white collar workers take modest meals to work. They eat no more simply at home. With high energy costs, the increased amount of home heating for retirees, who stay home for longer periods than before retirement, may equal and will likely exceed savings on transportation expenses. Replacement rates measure only former cash pay. However, valuable fringe benefits, such as paid health insurance, average about 20%. While Medicare affects about an equal amount of protection for the retiree, it does not do so for other family members below age 65.

Moreover, with larger amounts of leisure time, the retired should have sufficient funds to use that time pleasurably in such activities as entertaining and visiting family and friends and away-from-home recreation. Retirement should not mean, as it now generally does, economic demotion and progressively more scrimping. A lifetime of useful work should earn a comfortable and enjoyable retirement free from financial worries.

c. Credits adjusted for wage levels

Earnings credited many years before retirement were low due to earnings limitations and intervening inflation. To offset these factors and to enable retirees to keep pace with improved living standards, credited earnings are adjusted in accordance with changing age levels. The Committee believes that the contributions all working people make to the advancement of the economy entitles them to participate in such improvements. Despite the recent drop in real wages, productivity improvements should once again lead to improved standards of real wages. Those going into retirement should receive adjustments to their credited earnings to reflect such changes.

In this connection, we note that the benefits of aged widows and widowers are based on earnings which are adjusted by average wage increases up to the time of the worker's death and by prices thereafter. Where the survivor was young when the worker died, this can work a hardship, since he or she loses the benefit of real wage gains to the time of eligibility for benefits. We therefore advocate that benefits be based on earnings adjusted by wages up to the time of eligibility for survivor benefits and by prices thereafter. This is the system used for retirement benefits for workers.

d. Benefit formula adjusted for wage levels

The current benefit formula under which benefits for new retirees are adjusted annually to reflect changing wage levels provides for benefits at retirement which reflect productivity in the economy during the worker's career. It has been suggested that the benefit formula should be adjusted by price increases rather than wage increases. The Committee rejects this approach. Over the long run this change would produce average replacement rates which would decline from the present level of 42 to 43 percent to about 20 to 25 percent. In addition, the advertised long-range savings under this approach would be illusory since, as the living standards for future retirees would decline, Congress would be forced to increase benefits from time to time.

3. Increasing the Long Term Minimum Benefit/More Drop Out Years

Existing law provides a minimum benefit that replaces almost all former earnings that were low. It also provides a higher benefit for those with very long (30 years or so) earnings records, but with low average credited earnings.

a. Higher long service minimum benefits

Improving the regular minimum benefits would help offset the baleful effects of past discrimination and recurrent unemployment. However, such a change also redounds to the benefit of those with relatively short covered work histories who may have their primary retirement income provided by some system other than social security. In contrast, the long service minimum primarily serves those who worked regularly under social security for many years, but at low earnings. The purpose of almost full replacement fits this group and we recommend decided improvement in the long service minimum, both by increasing the amount of the benefit and by decreasing the amount of work required to get that benefit. Women and minorities who work regularly but typically have low earnings would be especially helped by this change.

b. More drop out years

Because social security benefits vary according to the average credited lifetime earnings, provisions to ignore (drop out) periods of low or no earnings improves benefits. Present law provides for "dropping out" five such years in computing retirement benefits. Increasing the number of years that could be dropped out would tend to improve benefits for those with periods of earnings interspersed with substantial periods of unemployment, thereby aiding many

women and other groups that have suffered discrimination resulting in higher than usual unemployment. But this device also would benefit many with formerly high earnings, and another primary source of retirement income, pegging their benefits to their best earning years.

Both improvements in the long term minimum (say for 15 or more years of credited service) and more drop out years would help improve the retirement income of groups whose employment patterns suffer from low earnings, frequent unemployment, and non-paid work due to family duties.

4. Cost-of-Living Adjustments (COLA)

The greatest enemy of a fixed income is inflation. Offsetting its ravages constitutes the top challenge and priority for retirement income policy. Social security has been the mainstay of retirement income's defense against inflation. In contrast, inflation has eroded the value of private pension benefits and pensions for those retired from non-federal government employment.

a. Social security COLA

Provisions to adjust social security benefits to changes in the cost of living should be maintained. Some critize present arrangements based on the Consumer Price Index (CPI) on the ground that the mortgage interest component distorts the CPI because in actuality that cost affects such a small portion of the population. We caution against changes in the composition of the CPI without adequate consideration and analysis to assure that they represent improvements in the accuracy of the measurement.

We emphatically reject the proposal that retirees should have their benefits reflect changes in wages or prices, whichever is lower. We note the special urgency of maintaining full COL adjustments for social security in view of the fact that social security replaces only a portion of pre-retirement income. The ability of social security beneficiaries to offset the impact of inflation by their own efforts is severely limited. In periods of high inflation, public policy has been to take measures that, as a by product, adversely affect employment, especially among the disabled, elderly, minorities and women.

Thus protection against inflation is especially critical because such periods adversely affect the already limited supplementary work opportunities of the elderly.

We believe that if it comes to it, the American people would support a retirement income program that protects against an old age of hardship even at the cost of some small reduction of spendable income during working years.

b. Private pensions; state and local government programs

(1) Full indexing rare

Virtually no such programs fully index benefits to the cost of living. In private plans, indexing is virtually unknown; in non-federal public employee plans, few index fully. Survivor benefits often receive less favorable COLA treatment than retiree benefits under state and local government systems.

From time to time benefits under some private and governmental plan benefits are adjusted to offset in part past drops in value caused by inflation. But lack of assured adjustment constitutes a major drawback of such programs. While we urge automatic COLA for all retirement income programs, we recognize that no feasible method has been devised to finance indexing of private plans and that current funding problems of many state and local governments make it unrealistic to expect substantial improvements in this vital aspect. This leads to the conclusion that preservation of full COLA under social security is therefore doubly important.

(2) Bargaining for post-retirement improvements

The Supreme Court's Pittsburgh Plate Glass decision held that employers need not bargain about benefits for those already retired in discharging their bargaining obligations under the National Labor Relations Act. We recommend that this unduly narrow and formalistic interpretation be changed by statute.

5. An Urgent Need--Additional Cash Income for the Older Elderly

As longevity increases, more people spend longer periods in retirement. While many elderly remain vigorous, substantial numbers experience declining physical capacity. As a result, work opportunities and income shrink. Simultaneously, the ability to do things for one's self also may decline. Most of us take for granted our ability to do such common tasks as marketing, cutting the lawn, raking

and bagging leaves, repainting a room, cleaning a clogged drain, clearing out gutters in the Fall, grappling with a jar lid and winning, replacing a hard-to-reach fuse, hauling in logs for a fire, hauling out the cinders, and canning vegetables and fruits. For many older folks, the time comes when they can do fewer and fewer of these things for themselves but are otherwise capable of living independently and want to continue to do so. So they must purchase services and goods they formerly provided to themselves or go without. In sum, income declines just as the need for cash income increases. The need may be exacerbated by living in an older home requiring more and more maintenance and repair.

For many, institutionalization is an unwelcome, and sometimes fatal, alternative. For the economy, institutionalization is a very expensive substitute for independent living.

People age at different rates, so that the need to obtain a substitute for earned income occurs at different ages for different people. Until research provides a precise dividing line, we urgently recommend augmenting social security cash benefits beginning at age 75 in recognition of the increased need with age of substituting purchased goods and services for those formerly provided by one's own efforts.

The urgency of such an improvement can readily be seen by reviewing the data on elderly single persons, mostly women. Living alone means they enjoy none of the savings and help that a spouse so often provides, and are, in general, the worst off. Advanced age also tends to be associated with higher medical and drug expenses. Easing the financial predicament of the very aged should have the topmost priority among all efforts to improve retirement income. Social security can do that job best.

6. Special Problems of Minorities and Women

Employment discrimination has contributed to the frequently irregular employment of minorities and women. They often have been relegated to low pay, and seasonal and otherwise undependable employment. In addition, many women spend substantial periods outside the labor market performing the valuable (but unpaid) role of homemaker and mother. Divorced women often have spent long periods outside the active labor force. These patterns have produced lower average credited earnings.

There is some evidence that these patterns are gradually changing. But minorities and women remain especially vulnerable to job loss in periods of recession, which in recent years have occurred so frequently.

Improved long service benefits and adding to the number of permissible drop out years (discussed in 3 above) would be especially useful to members of these groups.

They encounter other difficulties as well.

a. Equal Treatment for Women

(1) Social security

Vastly increased work for pay by women and the greatly increased rate of divorce require changes in the social security law. The law should be changed to assure women protection commensurate with their work and their contribution to the family's economic productivity during marriage, whether work was in the home or in outside employment. The Committee believes that marriage is an economic partnership and joins with other groups in finding that the most promising approach is to treat the married couple as a unit that shares all creditable earnings during marriage.

The idea of marriage as an economic partnership is easier to enunciate than to effectuate. We believe that its implementation should be pursued vigorously although precise arrangements require more considered discussion.

Technical problems must be solved. For example, the reasonable proposition that housekeeping and child rearing functions be accorded social security credit raises the issue of how much credit, especially because many persons have pursued such activities in varying combinations with work for pay.

The sound proposition that married couples with equal income, whether earned by husband, wife or both, should obtain equal social security benefits also is difficult to achieve. And the device of crediting a divorced person with one half the credited earnings during the period of marriage would reduce benefits for the higher-earning spouse if deducted from his/her credits, thereby producing a lower benefit than a person now similarly situated would enjoy. On the other hand, not reducing such benefits would require substantially larger total benefit expenditures and would give a financial advantage to those who divorce.

We urge earnest attention to these problems in the interest of rapidly implementing new benefit pat-

terns adequate to new earnings patterns and social arrangements, without, however, penalizing older groups not yet retired whose patterns of work and family follow those for which the law was originally designed.

(2) Other Retirement Income Programs

(a) Private pensions

A far smaller proportion of women than men participate, or have the opportunity to participate, in private employment-based pension plans, which tend to cover better paying jobs. A high proportion of women also find employment in part-time or part-year work making it more difficult for them to qualify for pension credits even in covered jobs. As a result, a far smaller proportion of retired women, as compared with men, enjoy pension benefits in retirement. It is questionable that the vesting requirements of ERISA (Employee's Retirement Income Security Act), have substantially improved women's chances to obtain as much pension return for their work as men do, although as more women spend extended periods in the work force, this picture may change.

(b) Governmental retirement income programs

Vesting provisions range from stringent (15 or 20 years of service) to liberal (5 years of credited service) for government retirement programs. However, the not unusual pattern of breaks in working service for child rearing make it difficult for women to qualify for benefits. Moreover, it is far more common for public employee plans to be contributory. Upon separation from employment, the employee often is offered the return of his/her contributions. Withdrawal results in the cancellation of all pension credits. This means that the employer contributions go disproportionately to benefit the longer service employees who stay on the job until retirement. This is a common occurrence in public teacher retirement programs, in which a large percentage of participants are women.

b. Survivor benefits

A family that suffers the death of a member should not

have its emotional misfortune compounded by financial disaster as well. Most Americans depend upon currently earned income, their own and, quite often, that of other family members, particularly a spouse or a parent. Loss of such income upon the death of an earner constitutes one of the major hazards of modern economic life. Equally, when a person dies after retirement, the loss of that retirement income requires adequate replacement if economic deprivation is to be avoided by the survivor.

(1) Social Security

Since 1940, social security has been far more than a retirement program. Social security provides protection against loss of income from all of the major hazards of an industrialized economy in which we all rely on current cash income. Thus, upon the death of an earner, social security pays benefits to his/her young spouse and children, or aged spouse, and, possibly, dependent parents. Upon disablement, the disabled person is assured a portion of his/ her former income, supplemented by benefits to spouse and children. Benefits to dependents of retired and disabled workers equal 50 percent of the worker's full benefits and in death cases, the young widow, with children gets a 75 percent amount, as does each child, subject to an overall limit to a given family. Upon retirement, the retiree receives benefits based on his/her earnings record, supplemented by the 50% spouse's benefit. (The spouse gets the larger of that benefit or a full benefit based upon his/her own earnings record.) Upon death after retirement the survivor may choose between 100% of the deceased's benefit or his/her own. Full retirement benefits for workers and their spouses are available at age 65, with reduced amounts available at age 62 (age 60 for a surviving spouse). Benefits to divorced spouses may be available where the marriage lasted at least 10 years.

The amount of the survivor benefit recognizes that when one person in a couple dies, common expenses are not halved; some, like rent, may remain the same. It provides the spouse and children of wage earner with protection against serious financial deprivation. It enables children who have lost a parent to pursue their education without undue pressure to quit school so as to contribute to support of the remaining parent and other children. The social security student benefit supplies a partial substitute for lost family income and valuable parental services and

relieves the pressure upon young people to go to work to provide the lost support. It also relieves some of the pressure for the surviving parent to begin or increase outside work when often his/her time and efforts are needed more than ever at home.

Protection of the family at all stages of development has been and should remain social security's role. Elimination of any major protection it already affords can only undermine support, particularly by younger workers, for the overall program. The social security system is a compact between citizens and government and among citizens of all generations and must be honored. In return, for current contributions that pay the benefits of retirees, the disabled, and surviving widows and children, the currently employed can expect that when they become eligible for survivor, disability, or retirement benefits, the system will honor its promises.

(2) Private and public agency pensions

Retirement income systems other than social security do not, as a rule, provide assured survivor benefits. Most such programs do not provide any benefits for spouses and children of plan participants who die before retirement age other than a comparatively small death benefit (usually provided under a life insurance policy) of one or two years' earnings.

ERISA does require that private plans that permit early retirement offer the participant the option of an early survivor annuity providing at least half what the participant would receive as a annuity.

Plans other than social security do not assure survivor benefits to spouses, children or parents of participants who live to retirement age. Again, ERISA requires that retirees be given the opportunity to decline a joint and survivor option; not to reject it results in actuarially lower benefits to the participant.

Data do not exist showing the rate of election of survivor benefits. As most public and private plans offer quite modest retiree benefits, the actuarial reduction must discourage many. Nothing in the law or plans requires participation by the spouse in this crucial decision.

Lack of assured survivor benefits to spouses, children and parents that characterize private and public plans other than social security constitute a major deficiency that threatens future financial deprivation, especially to the long-lived, principally elderly widows.

We urge that all retirement income plans provide joint and survivor benefits in the event of the participant's death either before or after retirement. They should offer such benefits and any declination should require agreement by both spouses, at least when they are not estranged. Social security's assured survivor benefits constitute a major advantage of that program as compared with all others.

c. Treatment of Racial and Ethnic Groups

(1) Social Security

As noted, many members of minority groups encounter employment problems that produce lower than average social security incomes. In addition, the less favorable longevity patterns of some racial groups mean lower than average periods of retirement benefits offset to some considerable degree (in dollar terms) by the benefit formula weighted in favor of the lower paid and a higher incidence of survivor benefits. Some have suggested higher retirement benefits to equalize total benefits of, for example, white and minority retirees. The Committee believes that it is the essence of discrimination to attribute group characteristics to members of a racial, ethnic, national or sex group. Therefore, we endorse the position of the 1979 Advisory Council opposing special arrangements based solely on race, sex, and the like. However, formulation of policy for social security, as for other governmental programs, should be sensitive to, and take account of, problems suffered more often by minority groups and women. We note that raising the age for full and reduced retirement benefits would result in greater deprivations to groups, usually characterized by low income, with generally earlier incidence of death.

(2) Other retirement income programs

As with women, minority group members participate less, and have less opportunity to participate, in private pension plans. Not unexpectedly,

minority group retirees do not often receive private pension benefits. In the absence of radical improvements in such plans--which are not to be expected--minority groups will continue to rely primarily upon social security.

7. Rights of Divorced Persons

Divorce poses severe financial problems. When an economic unit divides, both former partners experience increased expenses and, usually, lowered income. Women with children encounter special difficulties. They often have been out of the labor market or employed less than full time while children are younger. Thus, credited earnings records and opportunities to qualify for retirement plan credits are adversely affected. Social security provides spouse and survivor benefits only if the couple had been married for ten years. (Thus, a 9 year marriage could produce 9 years without credited earnings but the opportunity to drop out only 5 of them in computing creditable earnings and thus using up all drop out capability).

Only a few community property states regard pension rights accrued during marriage as jointly acquired property. Thus the present law creates serious hardship for the less financially fortunate partner. Given the growing incidence of divorce, this must be regarded as a major and serious problem. Fairness and the avoidance of hardship argue for providing that years of marriage will yield credits toward both social security and other retirement income programs. As noted above, the Committee endorses the partnership concept of marriage so that total earnings credited to the couple should be shared by them if they continue married or are divorced (half going to each). Given the fact that a smaller proportion of women than men participate in private pension plans and that their employment patterns give them a lesser chance, on the average, to qualify for benefits, greater assurance of participating in their spouse's plan becomes that much more urgent. Thus the partnership concept should be applied to all retirement income programs. That said, it must be recognized that a pension right based upon years long preceding retirement will tend to produce a negligible benefit pegged as they usually are to the benefit level of that time without provision for adjusting to wage increases (as is done in the case of social security) before retirement occurs.

C. The Role of Employment Income

For those with earning capacity, public policy should promote opportunity to work gainfully. But capacities differ and tend to decline with age. Hence, public policy should stress ages for retirement at which significant numbers encounter difficul-

ties of declining physical capacity and obsolescent training and skills.

Older Americans, like all others, would be best served by a full employment economy which demands their services. Demographic trends and the increase in average age should expand employment opportunities for older persons.

1. Improving Job Opportunities for Older Persons by Redesigning Jobs

The economy and individuals can maximize their return on investments in education and training and avoid the waste of valuable experience by redesigning jobs to meet peoples' changing capacities. This means both changing job content and also expanding part-time and part-year opportunities. We ought especially to seek to match unmet needs with the otherwise unused capabilities of older people.

2. Improving Training/Retraining Opportunities

Enhanced employment income, longer working life, and increased work opportunities all depend upon expanded training and retraining opportunities both before and after retirement. Higher skills would improve pre-retirement benefits. A better trained work force of all ages would strengthen the economy and its ability to meet retirement income needs.

3. Providing Incentives to Work

a. Private pensions

Most private plans require total retirement to reap benefits thereby inducing some to retire. Modifying plans to permit partial retirement with somewhat proportionate plan benefits would facilitate part-time work and the continued use of accumulated skills and experience. The device would slow the drawing down of pension reserves, thereby increasing the amounts available for continued investment and earnings. In turn, this would enable improved pension benefits and decreased contributions and reduce the rate of payout by social security.

b. Social Security

(1) Tax incentive to work

But if the above are regarded as insufficient, we recommend encouraging continued employment by providing an income tax exemption for all earnings up to the amount that otherwise would be received as a social security benefit. That is, for all dol-

lars lost under the earnings test, a variable credit on taxes would be allowed, which would increase with age, along the lines of the recommendation by the National Commission on Social Security. This device might reduce draw down of social security benefits. While the immediate cost would be borne by the income tax system, to the extent that people qualifying would not otherwise earn income, it would experience no loss. To the extent that the device stimulates earnings above the social security benefit level, general revenues would increase.

(2) The retirement test

We reaffirm the principle that the social security program primarily protects those who cease work, their dependents and survivors. Social Security must continue to place top priority on providing an income substitute for those cut off from earned income by retirement, disability, or the death of a provider. While earned income constitutes a desirable supplement, those who can earn substantial amounts least need social security benefits. While those who cannot work (the great bulk of the retired) fall short of the nation's retirement income goals, improving benefits should take priority over further easing of the retirement test. Elimination or yet further liberalization of the retirement test would cost social security billions that it cannot afford with most benefits flowing to those already best off, many of whom would work in any event.

At age 65, the retirement (earnings) test in existing law permits $5500 this year ($6,000 in 1982) in earnings before loss of any benefits. For every $2 earned above that amount, beneficiaries lose only $1 in benefits. Current law provides that such permissible earnings limit will increase with wage levels. In 1982 exemption from the earnings limit will drop from age 72 to age 70. We believe that these arrangements provide leeway for those with the physical and skill capacities to earn above those levels. Social security's resources must be husbanded for those not so fortunate who must retire because of age or disablement or who die and their dependents and survivors. Remedying the low benefit levels for the very elderly, who usually cannot supplement their benefits by work, merits the greatest priority.

Because social security is designed to provide a substitute for lost earnings, present treatment of investment income should not be changed.

(3) Increase delayed retirement credit

However, to provide additional incentive to those who can work, the delayed retirement credit--the benefit increase provided to those who delay retirement beyond age 65--should be increased beyond the level of 3 percent per year.

4. Wage and Salary Levels

The wholesome principle of equal pay for equal work should apply to social security beneficiaries. Lower wage and salary levels would threaten exploitation of the needy elderly, lead to increased dependency, and pit the elderly unfairly against younger earners and job seekers. Cooperation among all generations in their common interests for adequate income at all stages of the working/retirement cycle should be fostered.

D. Retirement Age

The burdens and rewards of work vary as much as do physical and mental capacities and skills. The age at which full benefits are available should be set at that level which meets the needs of the bulk of retirees without the imposition of a means test or any other device that dispirits or humiliates people who have long contributed to the retirement system and thereby earned their retirement rights. Long time workers should be able to choose retirement when their work becomes unduly burdensome, which is a matter for personal choice rather than meet the tests imposed either by government or private institutions. Freedom of choice, however, must be balanced against the financial capability of retirement systems. That boils down to the willingness of the bulk of the populace to fund the costs of the retirement age chosen.

Present law provides great flexibility for retirement according to the needs of differing groups--the disabled, those in ill health or unemployed between age 62 and 65, and those capable of doing substantial work past 65; only after very substantial earnings are their benefits reduced. At age 72 (age 70 next year), no such reductions take place. At present, the law sets the age at which full, unreduced benefits become payable by virtue of age alone, subject only to the retirement test, at 65. Most workers also earn the right to retire earlier at age 62 (or any other time between attaining age 62 and 65) with actuarially reduced benefits. The great majority of both men and women elect to start receipt of retirement benefits prior to age 65. Surveys indicate that most attribute that action to ill health or unemployment. That is, the action is more usually forced than voluntary.

We recommend retention of the present arrangements, which already provide considerable adaptability to varying needs, especially when supplemented by the recommendations to facilitate working beyond age 65. These arrangements maximize choice, minimize financial coercion, and stress inducements. To raise to 68 the age at which full benefits are payable, and to 65 the age for reduced benefits, would cut benefits for those below 68 and strand those under 65 without an income support program. We strongly favor inducements to which people respond if they are able rather than higher ages which impose requirements which many, apparently the majority of retirees, cannot meet. We strongly oppose subjecting retirement prior to age 65 to a means test or a test of physical or mental capacity, two possible means of filling the program gap between ages 62 and 65, and it is by no means clear that the gap would be filled at all.

We conclude that changes in the normal and early retirement ages should be considered only if and when more persuasive proof exists of both their need and beneficient results and that serious additional hardship would not result.

E. Assuring Financial Soundness

Since the inception of the program, Congress has sought to provide assurances of adequate funding for social security. The Social Security Administration has constantly monitored the adequacy of funding for both the short and long term. This admirable caution has led to estimates of possible future developments that cause understandable concern. We agree that adequate funding must continue to be assured. However, we believe that the difficulties that lie ahead may have been exaggerated. The short term funding problems of social security are readily manageable. The long term hazards may very well not come to pass because the assumptions on which they are based, for example, low estimates of economic productivity and labor force participation by older people in the future, may be unduly pessimistic. Even modest rates of productivity increase would assure ease of funding without reduction in living standards for those employed and subject to tax.

Moreover, the cardinal importance of a sound social security system for all age groups should translate into wide and deep support for rates of funding that will enable the system to make good on its promises. While a sound social security system will not be cheap, its efficacy and balanced approach make it worth what it costs.

1. The Role of the Trust Fund

We reendorse the principle of operating the Trust Fund on essentially a pay-as-you-go basis for the long term (although systems lacking the resources of the Federal government cannot safely use such a device.)

However, a modest reserve is desirable to assure ability to bridge variations in tax collections such as those attending recent recessions that have so reduced social security income as to cause some concern over the short-run ability of the program to meet its obligations. We endorse the recommendations of other groups to build the reserve to approximately 60% of a full year's benefits, thereby providing reserves to the fund sufficient to meet dips in revenue and thus forestall anxiety.

So-called full funding is both unnecessary and undesirable. The taxing power of the Federal government and the demonstrated desires of the electorate assure both the long term and short run adequacy of funding sufficient to meet program obligations.

2. Assuring Short Term Financing

Current short term financing problems of social security result from two back-to-back recessions each involving both high unemployment and high inflation, adversely affecting social security funding beyond reasonable projections. The reserve fund performed its function, providing time for Congress to respond with some corrective action. It did so. More should be done to reassure all concerned that the system remains able to honor its commitments.

Short term funding needs can be met without drastic action. Two of the three social security trust funds are not in any difficulty. The financing of the third (oldage and survivors' insurance - OASI) does require some adjustment; but that can be done. Action taken by Congress in late 1980 to reallocate some of the disability insurance (DI) tax to OASI should see the latter safely through 1981. The proposal to permit borrowing among the three social security trust funds might very well suffice until 1985, but only if the economy rallies. With less favorable economic conditions, some further trust fund income supplementation may be required. The Committee recommends a partial general revenue supplement on a counter-cyclical basis, to be paid when the level of unemployment exceeds specified limits.

The Committee does not favor increasing or accelerating the payroll tax beyond what the law currently provides. We favor the overall social security payroll tax rate of 6.65% of taxable/creditable pay and supporting Part A of the Medicare program half by the payroll tax and half by general revenues. This would enable the cash benefit programs to obtain the portion now going to Medicare that would be assumed by general revenues.

Such a change does not impair the sound principle that social security be financed for the most part with the payroll tax, thereby making all concerned (Congress, taxpayers and beneficiaries) aware of the intimate link between costs and benefits with the attendant responsibility that such awareness produces.

Seventy percent of the funds for Part B, non-hospital care, already comes from general revenues in recognition of the sound social policy that we should enable those who have worked a lifetime to secure adequate medical care without becoming impoverished in the process.

A partial general revenue contribution to Medicare Part A would be a modest and a proper way to meet the fiscal needs of the overall social security program. This approach has strong support from groups that show deep concern and support for social security.

The proposed change would not only meet anticipated needs for the cash programs but also would build reserves when, starting in 1995, the proportion of persons in retirement status will stabilize for about a decade. Moreover, the proposal would enable the social security system to meet its obligation well into the next century without any further increase in payroll tax rates above present rates.

3. Assuring Long Range Funding

Great concern exists over the future ability of social security to meet its commitments, especially to those now in their 20's, 30's, and 40's. We believe that, while it is prudent to consider future developments, some analysts have mistaken projections for reality and predicted a crisis. The Committee questions the analysis and doomsday predictions for the following reasons:

- From 1960 to 1970 the economy already experienced a total dependency ratio worse than projected (see Table 9); that is, the ratio of those in the ages 18/20-64 compared with those below and above those ages, who constitute all dependents, was lower than it is now; such an adverse ratio will not reoccur in a century;

- costs of sustaining the young will decrease, if fertility rates work out as projected, thereby offsetting, in part, increased costs of sustaining the elderly;

- with even modest improvements in productivity, increased social security costs would not reduce living standards of workers;

- o if the projected labor shortage occurs, there will be fewer dependents, as more older people find a demand for their work;

- o the doomsday predictions understate immigration, counting only legal immigration despite uncountable and unstoppable illegal immigration;

- o if a labor shortage develops in the next century (the basis of the crisis analysis), it can be offset by increased immigration (immigrants generally are younger than the population average). As noted above, doubling legal immigration could cut the projected deficit by about one third; trebling immigration could cut the deficit by two thirds.

The cash benefit program (OASI and DI), indexed as now provided can be funded by 12% of payroll (6% on the employee; 6% on the employer) well into the next century; indeed, such a rate would produce a surplus. Even assuming the questionable forecast of a 2 to 1 worker/dependent ratio in the next century, the contribution rate need be changed only to 16% (8% on the employee; 8% on the employer). Moreover, if productivity revives only modestly--as seems quite reasonable--the strain of paying 8% would be manageable with a steadily enlarging economy.

Adequate financing for social security for the elderly depends, at botton, on the willingness of the employed to set aside adequate funds for their parents and grandparents and to set a precedent that will serve their own income needs when they reach retirement age. Polls indicate that despite current financial stresses, the employed strongly support adequate social security financing, even at the cost of increased taxes.

More extensive public knowledge of these factors should provide reassurance that the projected social security Armageddon will not occur. On the contrary, calm and informed analysis provides substantial reassurance that social security can comfortably perform its assigned role--without being pared down--over the next 70 years. We are wise to consider the long run future and be alert to the need for change. But we should not mistake one set of projections for reality and make drastic changes that could weaken for all time this basic protection upon which all Americans depend.

4. General Revenue Supplementation/Borrowing

We endorse the payroll tax which makes for responsibility in setting benefit levels and establishes that benefits come as an earned right. It should continue to provide the bulk of social security funds.

the bulk of social security funds.

Nonetheless, some general revenue supplementation would seem appropriate in the light of the many social purposes served by social security. Unlike most industrialized western countries, the United States makes no significant general revenue contribution to cash benefits. Such general revenue supplementation would seem particularly fitting when revenues fall in response to economic measures designed for quite other purposes, as with fighting inflation by boosting unemployment. Thus, as already stated, the Committee recommends a counter-cyclical general revenue supplement.

In addition, general revenue loans may be necessary to tide one or another trust fund over a temporary rough spot, if interfund borrowing would not suffice.

5. Social security and the Federal Budget

Prior to 1969, social security was not included in the Federal Budget. The Committee recommends returning to that sound practice. Social security need not be included in the Federal Budget in order to assess its role, revenues, and expenditures. It collects and expends such vast amounts that these functions attract the necessary attention to insure that their fiscal and other consequences will be assessed.

However, the presence of the large social security tax yield and expenditures in the unified Federal Budget provides the temptation to play relatively easy budget games because even small adjustments register as large total amounts. In contrast, it takes far more attention and effort to effectuate economies in most smaller programs. When included in the Federal Budget, a surplus leads to the temptation to make non-social security expenditures.

6. An Independent Social Security Board

The unique role and preeminent importance of the social security program require its insulation from short term political influence. To promote its necessary independence and its ability to serve long term program needs, the Social Security Administration should be an independent agency headed by long term appointees, who can be fully informed and free to advise the President, Congress and the populace about program needs. This independence is needed to restore confidence in the program.

7. Tax Treatment of Social Security

Given the prodigious opposition within the population, in

Congress and by President Reagan, we see no useful purpose to be served in reconsidering the tax treatment of social security.

F. The Disability Insurance Program

Enacted in 1956, social security's Disability Insurance program serves some three million persons found to be without substantial earning capacity as well as their dependents. The tests are rigorous; people may be excluded if they have the theoretical capacity to do work that exists anywhere in the economy even if not to be found in their region and even if they would not be hired for an opening.

Most eligibles qualify on the basis of their condition, which is adjudged to equal total incapacity. Only a small percent of applicants present problems in determining incapacity.

Most eligibles suffer from degenerative conditions associated with aging, such as circulatory and skeletal diseases, and heart trouble and arthritis. More than two thirds of the disabled are 50 and over; more than one half are 55 and over.

Any cut in cash benefits for this group would impose great hardship. The Committee vigorously opposes such cuts.

G. Supplementary Security Income (SSI)

This needs-tested program provides only about 2% of the non-work income of those 65 and over. This figure attests to the overly stringent measure of need and the extremely low benefits provided. Indeed, SSI benefits fall below the poverty level and many states provide no supplementation at all.

This harsh policy directed against people 65 and over possibly proceeds on the erroneous proposition that at those ages people can readily earn significant amounts. It overlooks the fact that the property/asset requirements limit the program to people whose incomes have always been low or who have suffered a major setback in health, both of which belie any substantial earning power. When compounded by the difficulty of older persons to obtain employment, setting the benefit level below the poverty line can only be adjudged harsh. We urge that SSI benefits immediately be raised to at least the poverty level.

The Committee regards the policy of reducing benefits for SSI eligibles who live with others as short-sighted penny-pinching. Benefits are so low to begin with that making benefits go farther by living with family or friends should not carry a penalty.

H. Responsiveness of the Social Security Administration to the Public

The Social Security Administration has a mammoth task in paying out over 35 million current benefits, maintaining over 100 million current earnings records, approving each year 1.6 million awards for retirement benefits, 1 million awards for survivor benefits, and 1 million awards for disability benefits. In addition, it approves one half million annual claims for Supplementary Security Income benefits and 1 3/4 million annual claims for Aid to Families with Dependent Children (AFDC), and it provides information in response to tens of thousands of requests on benefits and earnings.

The Social Security Administration (SSA) has performed these tasks at low administrative cost. Almost inevitably, delays occur, especially in the complex area of disability assessment. To a considerable degree, SSA's early successes and splendid reputation for efficiency, speed and courtesy led to the assignment of additional tasks--disability, SSI, AFDC, and, for a time, the Black Lung program and Medicare.

Given the reach and importance of SSA's many activities, we urge that the Administration and Congress assure adequate appropriations to discharge its many functions with the dispatch and courtesy that have been for so long SSA's hallmark.

I. The Roles of Private and State/Local Government Pension Plans

1. Private Pension Programs

a. Coverage & eligibility

Only one in five persons over age 65 receives private plan benefits. The benefits themselves tend to be modest, and a far larger proportion of men than women and of whites than blacks, achieve benefit status.

Private employment-based group plans cover under half of the private non-farm work force. Plans generally cover better-paid employment, with heavy concentration in the manufacturing and unionized sectors, especially defense-related production. Low-paid jobs generally lack coverage; only a small proportion of minority group members and women work in pension-covered jobs. Part-time and part-year jobs often are not covered; if covered, they usually require no fewer than 1000 hours of work to earn pension credits. Most work before age 25 does not earn such credits.

b. Vesting

Present law requires plan credits to vest when the employee meets certain length of credited service requirements. Thus, under the formula in most common use, an employee with the years of credited service

has a right to benefits at retirement computed under the formula in force when he/she separates from that job or retires. Thus current law curbed some instances where even very long term employees separated just months or weeks or even days before normal retirement age might achieve no pension benefits whatsoever.

However, enormous blocs of work time may still produce no pension credits because so many employees separate from jobs, often involuntarily, shy of the required period of employment. Employment data show that employment in many kinds of work typically ends before 10 years.

Short tenure is especially true of defense production, service jobs, and the less stable employment in which so many women and minority group members find employment. So, for example, many retail sales jobs do provide pension coverage, but part-time and part-year employment and generally short service produce comparatively little chance to achieve pension vesting in this area in which so many women find employment.

Especially in small, closely-held companies, stockholder employees, executives, and managers more readily achieve benefit eligibility than rank and file employees, resulting in a disproportionately high percentage of pension reserves eventually going to the small group at the top.

Improved vesting, with full and immediate vesting as the ultimate goal, would improve the performance of private pension plans and bring about the more equal distribution of their benefits.

We recognize that cost considerations make substantial improvements extremely difficult to achieve. In contrast, just about all private employment and most nonfederal public employment produces social security credits which build into benefit eligibility regardless of the employer's identity and frequent job changes by the employee.

c. Benefits

(1) Retirement

Normal retirement benefits usually vary in proportion to length of credited service. In our very mobile society, many work for several, possibly many different employers over a working lifetime. Even where multi-employer plans exist, they are limited to one industry or trade and often to one geographic area. Hence, not all

years of work translate into pension benefits. Private pension benefit recipients also tend to have higher than average social security benefits. However, private plan benefits usually constitute a minor portion of retirement income: In 1978, under 10% of beneficiaries over 65 derived half or more of their income from that source and only one percent obtained nine tenths of their income from private plans.

(2) Dependents and survivors

Benefits for dependents of retirees are unknown outside of social security and railroad retirement.

While ERISA requires that joint-and-survivor benefit options be available to plan participants who are free to reject them, the law does not require participation or agreement by the covered employee's spouse. No data exist on elections, but past experience indicates that only a very small minority select survivor benefits; unlike the situation under social security and railroad retirement, election of survivor benefits results in reduction of the retiree's benefit.

Increasing longevity makes adequate survivor benefits even more urgent for the future. If private pension plans are to meet future needs of the elderly more adequately, survivor benefits must be assured and replace at least 60% of the retiree's benefit. (As noted above, social security replaces 100% of that amount for a surviving spouse.)

We subscribe to the view that marriage is a partnership for financial as well as other purposes. Thus, at the least, agreement of both retiree and spouse should be required to reject any survivor option where they are not estranged.

d. Inflation - poor prospects for indexing

Indexing of private plan benefits is all but unknown. Quite a few plans do improve benefits for retirees but do not have fixed programs to do so. The law does not require employers to bargain about the benefits of those already retired; we urge amendment of the National Labor Relations Act to remedy this interpretation. When pension plans terminate, benefits payable by the Pension Benefit Guarantee Corporation (PBGC), which do not replace lost benefits in full, remain fixed and do not improve in response to increases in the CPI.

Not surprisingly, the value of private plan benefits generally erodes. So, a 1978 Brookings study showed that the value of average benefits paid in 1970 was greater than the value of average benefits paid in 1975 (and that occurred even before inflation became so virulent). During the 1970-78 period, the study shows, average social security benefits increased in dollars just about twice as fast as private plan benefits (116% to 62%).

It is unlikely that cost-of-living indexing will be introduced in many plans in the foreseeable future because they would be unable to meet the very sizable contribution increases such a change would entail. Failing that, we urge periodic adjustment to restore the purchasing power of retirees' benefits. We recognize that cost considerations make these goals extremely difficult to achieve. Such poor prospects argue strongly for devoting whatever additional retirement income resources become available to the social security system.

e. Indexed bonds

One proposal for inflation-proof savings, especially for retirement, has been bonds indexed to the CPI or a similar index. Just as no proposal for financing indexed private pension benefits has been forthcoming, so no proposal for private underwriting of indexed bonds has been made. Only the United States government seems capable of such undertakings based upon its general taxing power.

Indexing bonds involves risk of unascertainable size because the two major variables, CPI changes and the amount of bond purchases, are unknowable.

However, experience with Individual Retirement Accounts (discussed below) and Canadian savings bonds with special features show that only those with substantial resources can avail themselves of the opportunity.

The use of general revenues to subsidize savings for those already most fortunately situated financially and doing so without solid assurance of a net addition to total savings, strikes us as an unpromising public policy choice.

f. Funding

Prudence requires advance funding to assure the ability to pay benefits as they come due. Information used in computing the requisite contributions are the

rate of employeee turnover and death rates prior to retirement age (that is, separation without achieving benefit eligibility) and the earnings on fund reserves. Most actuarial funding assumes a plan life of 30 years or so. ERISA requires funding over a period of 40 years for plans in effect at its effective date and 30 years for new plans. However, deviation from actuarial estimates or termination prior to the plan's projected life can leave a plan without sufficient funds to honor its obligations. ERISA provides insurance of single employer plans to pay for part of such a shortfall up to modest limits and enables it to recoup its payments by proceeding against a portion (30%) of the employer's net general assets. The original 1974 act also provided for similar coverage for multi-employer plans but deferred its effective date. The 1980 amendments put into operation such a program for multi-employer plans with the difference that benefits otherwise due may be reduced to make the insurance plan less costly and more feasible. As already noted, PBGC payments are not indexed or, perforce, amenable to improvements.

g. Tax treatment

A major advantage of corporate pension plans is that they permit those who receive benefits to avoid taxation of contributions that otherwise would be paid as taxable income; in addition, when benefits are received and taxed as income, the rates almost always are lower than what they would have been during active working years. But the greatest advantage is that the earnings on fund reserves are not taxable as income when received; thus "profits" can be reinvested without diminution by taxes.

These tax "savings" by individuals translate into "tax expenditures" for the Federal Government. In 1980, the Office of Tax Analysis of the U.S. Treasury Department estimated these taxes not received by the Treasury at $20 billion annually. (Not surprisingly, the bulk of the tax benefit went to those with large amounts of gross income: Some 66% of the corporate plan tax advantage went to those with gross incomes over $20,000.) Interest on the portion of the Federal debt must be added as a cost. Together those lost revenues and interest costs add to the burden of the majority of the population who do not participate in such plans and the even larger majority who do not obtain any benefits from such plans. Indeed, the numerous pension losers in effect transfer part of their income to the pension winners, who generally enjoy higher income, greater job security, and have superior ability to save in other ways.

h. Keogh Plans: Individual Retirement Accounts (IRAs)

Treatment somewhat similar to that accorded corporate plans (tax deductibility of contributions; deferred taxation of earnings) is available to the self-employed and employees of partnerships in "Keogh" (or "H.R. 10") plans. These plans have smaller maximum contributions for favorable tax treatment than do corporate plans. In addition, they require that the interests of non-partner employees vest after three years. No data exist on the extent of vesting that results. Overall benefit data indicate that Keogh plans have not dramatically increased the enjoyment of pension benefits.

ERISA made possible IRAs, to which contributions on behalf of employees not covered by a corporate plan can be made up to a yearly limit of $1500. Contributions are tax deductible and earnings tax free until drawn as benefits. Unlike corporate and Keogh plans, IRAs do not require non-discriminatory coverage of other employees, a requirement that accounted for the establishment of some group plans in the past. The introduction of IRAs thus enabled, and perhaps encouraged, some employers to discontinue corporate and Keogh plans and switch to IRA's covering only key personnel, albeit at lower tax-favored contribution limits. Thus, IRAs, like Keogh's, used primarily by those with substantial income, detract from other plans that require employee participation. We therefore oppose any liberalization or fresh measures to encourage Keogh plans or IRA's.

The U.S. Treasury Department study noted above found that taxes lost as a result of Keoghs and IRAs totalled some $2 billion in 1980, and 65 percent of the tax advantages went to those with gross income of $30,000 or more.

i. The role of private plans-the ideal versus the actual

Ideally, private plans and earnings from savings should supplement social security so as to enable retirees and their dependents and survivors to maintain their former standard of living. Ideally, all work should generate effective pension credits and income protection for the earner and his/her dependents in the case of disablement and income protection for surviving spouse and children or dependent parents. Those benefits should be inflation-proof. This is especially important as cash needs grow as the retired age.

As the President's Commission on Pension Policy found, in actuality:

- o Many private sector employees [indeed the majority] lack pension coverage,
- o for some covered, benefits are low,
- o inflation erodes benefits,
- o private plans treat women inequitably (in coverage, ability to achieve eligibility and as survivors).

j. Mandatory coverage

(1) Proposals

The President's Commission on Pension Policy has proposed mandatory private pension coverage with a defined contribution of 3% of payroll with immediate vesting. The Commission's plan would not require "past service credits," a common feature of both private and public plans under which employment prior to the inception of the plan counts; the purpose of past service is to provide a benefit of some substance to those retiring within a few years after inception of the plan; however, it launches the plan with a substantial unfunded liability.

(2) The case for mandatory coverage

Retirees and survivors with the lowest income generally lack pension benefits. Mandatory coverage would provide a supplement to social security, which by itself may replace an insufficient portion of income. The pension funds created, it is argued, would generate needed investment capital and thereby help revitalize the economy.

(3) The case against mandatory coverage

In many low pay jobs, a plan could be financed only by cutting wages that already are inadequate. With universal coverage for private plans, but without immediate vesting, only a portion of the covered would reap benefits. The ratio of benefit winners to benefit losers would be even more unfavorable than under already existing plans because the newly-covered groups tend to have shorter and more intermittent employment. Minority group members and women would continue to be the big losers. With immediate vesting, the benefits generated would be miniscule.

Those already retired, especially over-75 single persons, have the most urgent need for additional retirement income. Social security could quickly apply any additional funds to this and other groups identified as in special need. In contrast, new plans could not in any way meet the needs of those already retired and their survivors. Indeed, it could not be before the turn of the century that new plans without past service credit could pay any significant benefit. Yet, the only such proposals for mandatory coverage that command any substantial support specifically propose that no prior service credits be given. However, the tax expenditure cost of the new program would start to build immediately. A modest estimate puts the tax cost at $60 billion for the first ten years, assuming $25 billion in annual contributions and annual earnings of only 7%.

We conclude that any funds available to bolster retirement income can be more readily mobilized, more easily focused upon groups in need of special help, and more economically delivered, by social security than by a mandatory private system.

k. The capital formation argument

Some critics of social security assert that it inhibits private saving and that an expanded private pension program would contribute to the accumulation of needed investment capital with which to expand productive capacity. Evidence in support of these propositions is highly questionable. Particularly in inflationary times, such as those characterizing the last decades, incentives to save are greatly diminished. The ingenuity of marketing and financial institutions in expanding readily available consumer credit raises even more doubt about the claimed effect of social security. Underfunding of plans also puts in issue whether they generate net savings.

It is argued that forcing saving upon low income earners would generate large amounts available for investment. It is very doubtful that the funds so generated, or even any considerable portion, would be translated into new capital investment. While data are sketchy, a large amount of pension reserves seem to be invested in already issued securities, thereby bidding up their price but not their underlying value. Insurance companies invest significant portions of their reserves in buildings, which economists regard

as less productive than equipment. Many pension fund investment counselors are hired for short terms and so seek dramatic improvements in yield, which cannot readily be derived from new capital investment.

Thus we doubt that mandatory private plans would have a more salutary effect upon capital formation and new investment than would transfer payments under social security to vast numbers who immediately spend those amounts for goods and services; that market demand should bolster private enterprises that seek to satisfy it.

Moreover, we believe that choices in retirement income policy should be made primarily in the interests of adequate retirement income for those already elderly and those who will be in the future. Retirement income policy should not be distorted by corporate investment considerations. These latter should be pursued directly.

l. Private plans - social security integration

Several methods exist for "integrating" private pensions with social security. Under the offset method the private plan benefit may be reduced by a portion - up to 83 1/3% - of the social security benefit. Thus a substantial portion of social security benefit increases may not be passed along to former employees but, instead, reduce employer cost. Several differing versions of the "excess" method also exist. Their common element is exclusion of some or even all of the earnings covered by social security in computing private pensions. This method may enable employers to provide disproportionately large benefits to upper income employees without violating the non-discrimination law governing the receipt of tax advantages for plans.

Integration is more common among small and non-unionized firms where employees are least able to resist pension discrimination. The Committee believes that there should be a careful examination of the current system of integrating private plans with social security to make sure that lower-paid workers are not discriminated against.

m. Portability

ERISA provides that when an employee leaves a plan and has a vested benefit, the plan must report pertinent information to the Social Security Administration which records it with the individual's social security record. That enables an employee to file a

benefit claim when he/she reaches retirement age. However, that arrangement does not assure that an effective claim can be made. If a plan terminates or the employer changes its identity and the plan in a corresponding way (as in a merger or acquisition), it may become impossible to find the responsible plan. Also it might be impossible to trace all eligibles, given the mobility of the working population.

In addition, a vested benefit is "frozen" at its value as of the time of the employee's separation. Over any substantial period the value of the "frozen" credits will erode.

Enabling employees to transfer the value of credits to an on going plan would enable the funds transferred to be invested and, possibly, continue to grow. That might be done by transferring the actuarially discounted value of the credits to the plan of the individual's next employer or a central "clearinghouse" which itself operated a plan consisting of the funds received for such credits.

We urge that, if liberalized vesting occurs, serious consideration be given to portability arrangements, especially a clearinghouse (or a network of interrelated regional clearinghouses), to facilitate portability of credits.

2. State and Local Government Retirement Plans

a. Resemblance to private plans

Employee retirement income programs have long been a feature of state and local governments. Their basic structure resembles private employment-based group plans in their eligibility and benefit structure, and their emphasis upon retiree benefits but slighting of dependent and survivor benefits. However, unlike many private plans, especially those which are collectively bargained, public employee plans generally require employee contributions.

Not subject to ERISA, their vesting and funding patterns vary greatly. Some plans are quite large, thereby enabling some economies of scale and greater expertise in management. Thus, state and local government plans exhibit essentially the same advantages and disadvantages of private pension plans, including problematical achievement of benefit eligibility. Many programs have a degree of indexing to the cost of living, but not in full; often survivor benefits are indexed less favorably than retiree benefits.

Pension plans are especially common for employees of the protective services (police, fire, and state/highway patrol) which often feature full retirement (often on half pay) after relatively short service (generally 20 years, as with the U.S. Armed Services). Many of these programs make heavy use of disability retirement, which often produces higher benefits than normal retirement and results in more favorable tax treatment. However, the extensive use of disability retirement often exceeds any actuarially predictable rate, thereby seriously undermining any possibility of orderly and adequate funding.

b. Funding

Funding of non-Federal government employee plans varies enormously in the absence of national statutory standards. The GAO Report, "Funding of State and Local Government Pension Plans: A National Problem" (August 1979) puts us on notice that many such plans are not adequately funded. So, it estimated (non-federal) public pension plan liabilities at $150 billion to $175 billion in 1975, with the strong possibility of increasing.

It observed:

> Of the 72 plans we reviewed, 53 were not receiving large enough contributions to satisfy the minimum funding standard prescribed by ERISA for private pension plans. Of these, 17 were on a pay-as-you-go basis. Annual government contributions to the 53 plans amounted to $1.8 billion; to meet an ERISA-type funding standard, another $1.4 billion in annual contributions would be required.

Thus the prospects for adequately funded public employee plans are not good in many state and local governments. The imposition of appropriate funding standards might evoke great resistance and the plea that many governments cannot afford such funding. In addition, serious doubt exists about the authority of the federal government to impose such standards.

The potentiality that many state and local government retirement income plans may not be able to make good on the benefits they promised ought to be taken into serious account.

3. Social Security Coverage for State and Local Government Employees

State and local governments have had the option to join

or stay out of social security. Most have elected to join and, where a public employee pension plan existed, to take such coverage into account in setting benefit levels and other features of the plan. A few jurisdictions, most notably Alaska, have withdrawn from social security coverage. Others have considered such a move, often in the initial belief that they would effectuate savings and possibly enhance retiree benefits. Upon investigation these advantages have proven illusory and so few withdrawals have occurred.

The results of staying out of social security coverage often are not salutary for the non-participating groups. Many state and local government employees spend the bulk of their working time not under such systems but in social security-covered jobs. Unless they qualify for vesting under the requirements of state/local plans (which vary widely), they may have no retirement income to show for such work; meanwhile, their absence from social security-covered work will have reduced their credited earnings under that program (to the detriment of their eventual benefits) and may impair eligibility for disability insurance, which requires 20 quarters of coverage out of the 40 calendar quarters preceding the onset of disablement. Currently, earnings of $310 in a year earns a quarter of social security coverage. State and local plans often have weak disability provisions and their coverage survives job separation for only limited periods. Unskilled employees most likely to lose state and local jobs also often will not be able to command moonlighting jobs that would avert these unfortunate social security consequences.

In sum, non-participation in social security has serious adverse effects upon social security financing and carries substantial hazards for many such employees outside social security, as well. Thus the Committee urges state and local government employees to stay under social security or to obtain its coverage for their government jobs. And the Committee recommends that the law be changed so that once coverage is elected, withdrawal may not occur.

4. Federal Government Plans

a. Federal Civil Service Retirement

This system, established in 1920, had become a mature and generous program when social security was enacted in 1935 as a very modest program. At the time there arose no serious question as to whether the programs should be dovetailed or social security replace Civil Service Retirement. It was not a realistic option at the time.

The Civil Service Retirement System constitutes a major attraction to employment by the Federal Government. Its benefits are substantial; its twice-yearly adjustment to the CPI constitutes a yardstick for all such programs.

Proposals that extend social security coverage to Federal employees include: a two tier system including social security to produce the benefits now obtained under Federal Civil Service Retirement; exchange of credits between those two systems; and elimination of unintended benefits for higher income employees. Any effort to cover Federal employees should assure adequate protection for annuitants and the expectations of long term participants.

b. Military programs

A Presidential Commission recently reported on military pensions. We urge serious consideration be given its basic conclusions that effective credits toward a pension should be given before the 20 years of service now required to qualify for any benefit and that 20 years service should not be regarded as achieving normal retirement age, coming as it does as early as age 38 for some.

VII. CONCLUSION - THE NEED FOR ADEQUATE RETIREMENT INCOME THE ECONOMY CAN AFFORD IT/THE PUBLIC WILL SUPPORT IT

Our review of retirement income systems persuades us that substantial improvements are required to enable older citizens to live in dignity and security after a lifetime of work. This is especially urgent for the very elderly.

On grounds of fairness, efficiency and ability to focus rapidly upon areas of special need, improvements in social security constitutes the preferred method to achieve sound and reasonable retirement income goals. It has been and will remain the principal reliance of most Americans. It should be strengthened to enable it to do its job. Quite practical ways exist to enable social security to perform its vital and special functions in our society.

Private and state and local government pension plans perform vital functions in supplementing social security. They require strengthening to enable them to perform their roles more satisfactorily and with greater assurance to future beneficiaries.

All systems of retirement income must address the present disadvantages and discriminations that operate against minorities and women. Equalizing treatment in actual operation should have a high priority.

We are convinced that the American economy is capable of providing a decent standard of living for the retired, the disabled and survivors. We believe that the American people are willing to pay for a sound and just system that will provide no less.

SUPPLEMENTARY VIEW OF VICTOR HRUSKA

"By a continuing process of inflation, governments can confiscate secretly and unobserved, an important part of the wealth of their citizens. There is no subtler, no surer means of overthrowing the existing basis of society than to debauch the currency."

John Maynard Keynes

Inflation is the arch enemy of all people, but it is especially cruel to over 80% of the retired who are middle income and live on fixed incomes and social security. They are being rapidly driven into poverty. The Committee Report is not concerned about the plight of these retirees, and, indeed advocates measures which would accelerate their liquidation. It presumes that almost all will be driven into poverty and it proceeds to propose respiratory measures. I cannot agree with this approach: I believe the middle income retirees are worth saving and can be saved. In the process, the basic socio-economic structure of this country can be revitalized for the aged.

Government transfer programs for the aged, particularly the low income aged, have increased dramatically in the last two decades--from about $27 billion in 1960 to $112 billion in 1978 in constant dollars. Extending this approach, while tempting, is self defeating, since it is inflationary. Those individuals who spend a lifetime working, paying taxes, and saving for their own retirement face the shocking realization that inflation can decimate their assets in only a few years.

A typical pattern for many elderly families is to convert their accumulated assets at retirement to "secure" forms (certificates of deposit, corporate bonds, etc.), sell their homes and move to an apartment. The table below illustrates the effect on buying power of a $100,000 nest egg for an aged individual in the modest, 15-percent income tax bracket with an assumption that inflation will gradually decline to 10 percent per year. While one could quarrel with the specific assumptions used, they certainly do not seem overly pessimistic, and indeed, the true picture may be worse.

Inflation Rate	Opening Balance	9% Interest Income	Deduct Income Tax (15%)	Deduct Inflation	Closing Balance
1980 13.4%	$100,000	$9,000	$1,350	$13,400	$85,250
1981 13	85,250	7,673	1,151	11,083	73,016
1982 12.5	73,016	6,571	986	9,127	62,903
1983 12	62,903	5,661	849	7,548	54,506
1984 11.5	54,506	4,906	736	6,286	47,502
1985 11	47,502	4,275	641	5,225	41,636
1986 10.5	41,636	3,747	562	4,372	36,702
1987 10	36,702	3,303	495	3,670	32,537

Inflation Rate	Opening Balance	9% Interest Income	Deduct Income Tax (15%)	Deduct Inflation	Closing Balance
1988 10	32,537	2,982	439	3,254	28,844
1989 10	28,844	2,596	389	2,884	25,571

As the above figures illustrate, not only would the buying power decline to about one-fourth of the original $100,000 asset value, but the $9,000 annual income planned for retirement would decline to $2,600 in real dollars, well below the poverty level. This occurs frequently in the case of retired couples and especially aged widows, except most of them have smaller nest eggs and would be driven into poverty more rapidly. A major illness or other large expense forcing withdrawal from the principal would, of course, further erode the fund and income. This kind of financial picture seems a cruel reward for a family practicing the traditional values of hard work and thrift.

The retired person relying on a private pension to provide an income over the poverty level is in the same position because private pensions are not indexed. A person with a private pension plan providing a monthly income of $1,000 in 1978 would have this amount eroded by inflation to $425 real dollars by 1985 at the current rate of inflation (which since 1978 has been running at about 13 percent).

It is important to bear in mind here that not only is there no incentive to provide independently for one's own retirement but many barriers exist. If a person has few assets and little income a full panoply of government-provided benefits become available, including Medicaid, energy payments, Supplemental Security Income payments, food stamps, and public housing. Indeed, in our scenario our retiree, after having his or her life savings decimated, would become eligible for some or all of these needs-related benefits, thus increasing the tax burden for a new generation of middle-income workers who will find it increasingly difficult to provide independently for their own retirement. And those who must rely on government largess lose the dignity and independence that should be theirs in retirement.

Government and the private sector must join hands in an all-out fight against inflation. The retired would eagerly join and even help lead this fight, though it won't be easy, and will take time.

Until a real anti-inflationary program can be set in place, there are measures that can be taken to offer some relief. Some states exempt from income tax the first $10,000 of income of those over age 65. Much of their income is from fixed pensions or dividends and interest and is already being robbed of over 13 percent by inflation. This exclusion should be extended to our Federal income tax.

There has been a tremendous increase in the number of workers retiring at an early age. The participation rate in the work force of men over 65 is now less than one-half of the 1950 rate (46% vs. 19%). The participation rate of men 55 to 64 dropped 15 percentage points (87% to 72%). The very rapid increase in the social security retirement benefits was a large factor in this change which has affected our national productivity, exacerbated social security financing problems, and reduced the income of the retirees. These early retirees are a great national resource and they should be encouraged to work longer. I advocate a restructuring of the flexible retirement age to give much higher benefits each year to those who elect to work beyond age 65. Conversely the early retirement benefits could be further reduced and consideration should be given to starting early retirement at age 63 in 1983 or 1984.

Industry and all levels of government should initiate vigorous programs to keep older people on the payroll and to find compatible employment for those now retired. They are a resource that we cannot afford to overlook. This effort would result in a sound social security program and would increase the gross national product which would help fight inflation.

The report opposes any extention of IRA and Keogh plans. I recommend that they be improved and vigorously extended. It is through plans like these that a hard-working, frugal person can provide a retirement income which will enable him to lead a pre-retirement type of life, with the dignity and satisfaction that providing for one's own retirement gives.

The Committee recognizes the financial need of the older elderly but overlooks the very real need for companionship and security which can best be served by extension of programs like the Senior Companion Program and the Homemaker Program. These programs enable many frail elderly to maintain their own households.

Another issue on which I strongly disagree with the Committee is that of the use of general revenue financing, which the Committee advocated in light of the social purposes of the program. To advocate the indiscriminate use of general revenues destroys the "earned-right" nature of the current social security program. As the program is presently constituted, those in the work force pay social security taxes on earnings. When they are no longer able to continue in the work force, social security benefits are paid based on the average of the earnings on which such taxes were paid. To instead finance some part of these benefits by general revenues would violate the basic nature of the program. In addition, such a change would remove a sense of restraint and responsibility on the part of those working under social security and their elected representatives when considering new program liberalizations. This kind of approach leads to further deficit spending and inflation. Use of general revenue funds would encourage advocates of need-tested programs to use such tests for all social security benefits.

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The following Technical Committee Reports have been published:

Retirement Income
Health Maintenance and Health Promotion
Health Services
Social and Health Aspects of Long Term Care
Family, Social Services and Other Support Systems
The Physical and Social Environment and Quality of Life
Older Americans as A Growing National Resource
Employment
Creating an Age Integrated Society: Implications for Societal Institutions
Creating an Age Integrated Society: Implications for the Economy
Creating an Age Integrated Society: Implications for the Educational Systems
Creating an Age Integrated Society: Implications for Spiritual Well-Being
Creating an Age Integrated Society: Implications for the Family
Creating an Age Integrated Society: Implications for the Media
Creating an Age Integrated Society: Implications for Governmental Structures
Research in Aging

Experts from various fields were appointed by the Secretary of Health and Human Services to serve on 16 Technical Committees, each charged with developing issues and recommendations in a particular area for consideration as background material for the delegates to the 1981 White House Conference on Aging.

the 1981
White House
Conference
on
Aging

Executive Summary of
Technical Committee
on
RETIREMENT INCOME

TCES-5

NOTE: The recommendations of this document are not recommendations of the 1981 White House Conference on Aging, or the Department of Health and Human Services. This document was prepared for the consideration of the Conference delegates. The delegates will develop their recommendations through the processes of their national meeting in late 1981.

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INTRODUCTION*

Every American has an important stake in the economic well-being of the elderly. Millions of us are old now and the remainder, with good fortune, will be. The elderly reared us or our parents, built our factories, produced our goods, fought our wars, and did the jobs which needed doing. After a lifetime of productivity, the elderly deserve retirement with dignity and independence.

The most important ingredient in a happy and secure retirement, besides good health, is adequate income. Not only the elderly, but younger workers should also share a strong interest in building the kind of world they want for their own retirement, that of their elders, and that of their children. In the absence of adequate retirement income, the elderly will have to resort to help from their offspring, and, even where this is possible, it can produce a result that is burdensome for the children and demeaning for aged parents.

Our committee believes that equity and prudence dictate that the elderly receive a retirement income beyond that needed for bare subsistence. We strongly oppose efforts to cut back the social security program due to short-run budget considerations. This misguided approach breaks the compact workers have with their government on the extent of financial protection they can plan on upon retirement. Such efforts can destroy the will of workers to support the system and thereby destroy the system.

1. Retirement Income

Over the past two generations we have established a four tiered approach to providing retirement income, and this approach, while needing improvement, has worked. These tiers are (1) social security, (2) private and public occupational pension programs, (3) income from assets and savings, and (4) needs-tested programs such as the Federal Supplemental Security Income (SSI) Program, which is supplemented by some states.

These tiers are complementary and not in competition. Social security has traditionally provided the bulk of retirement

*These recommendations represent views of the majority of the Committee. A supplementary view follows.

income for most earners, with augmentation from the second and third tiers more likely at upper earnings levels. Needs-tested programs have provided a backstop for people who had very low and sporadic earnings over their lifetimes.

I. GOALS -- IMMEDIATE, SHORT TERM, AND LONGER RUN

A growing national consensus seeks:

- As an immediate goal, that no elderly person live in want of necessities, including medical care,
- As a short run goal, that in combination retirement programs should provide no less than the intermediate budget as estimated by the Bureau of Labor Statistics (BLS) that provides necessities and some amenities,
- As a longer run, but not remote goal, that our combined retirement income programs should maintain pre-retirement living standards for all. Social security should be adequate in itself for those who have below average earnings while social security plus supplementation from occupational pensions and asset income can be expected to do the job for those with higher earnings.

II. PRINCIPAL FINDINGS

- Social security constitutes the mainstay of the elderly population and provides invaluable, irreplaceable protection to the family at all stages of life.
- Social security faces short term and long range funding problems that are manageable; the vast and deep support for the system will produce the political support needed to provide for full financing .
- Dubious assumptions and analysis have produced predictions of a future social security crisis that are open to serious question and challenge.
- In 1979, 3.6 million persons over 65 remained in poverty, an unacceptable situation; some 29% of single elderly women--about 1.7 million--lived in poverty. About 62% of single black elderly women--about 300 thousand--were poor.
- The poverty measure understates the stark conditions in which many elderly exist; as just about one-quarter of the elderly--some 5.9 million--lived in "near poverty" (125 percent of the poverty measure) in 1979.

- During the 1970's average social security benefits grew in purchasing power and average private pension benefits' purchasing power declined.

- Social security accounts for all or nearly all of the retirement income for over half of those age 65 and over.

- Social security, on the average, actually replaces less than half of former earnings of couples; based on a study of retirees from 1968 to 1974, for those in the lowest earnings bracket ($1,000 - $3,999) it replaced about two-thirds of former earnings; for those at the highest level ($15,000 or more), it replaced about one quarter of former earnings.

- Private pension plans cover just under half of the private work force; only one out of two retired men and one out of five retired women receive private pension benefits.

- Private pension benefits averaged $2,180 annually in 1978 ($2,540 for couples, $2,340 for single men and $1,400 for single women); very few private plans are fully indexed to inflation and, indeed, few are indexed at all; despite dollar increases in benefits, average private plans benefits declined in value.

- Private pension plan coverage is sparse among women and minority group members, part-time workers, the non-unionized, employees in small, medium sized, and low pay firms.

- Outside of social security and railroad retirement, provision for spouses is uncommon and undependable; thus the income problems of older widows are a matter of especially sharp concern.

- The high rate of divorce increases problems of assuring fair sharing of credits and benefits under all retirement income programs.

- The funding of many state and local government pension plans raises serious questions as to their future ability to honor commitments.

- Private individual savings are widespread, particularly in the form of home ownership, but generate very little income for most of the elderly.

- Unless pension plans other than social security radically improve vesting, the benefit expectations of plan participants must remain uncertain and unreliable.

- Allegations that social security inhibits savings and that private and state and local government pensions produce net savings that result in expanded productive capacity are unproven and highly speculative.

- o Corporate private pensions cost the Treasury and taxpayers $20 billion per year in tax expenditures (uncollected taxes) while Keogh and IRA plans entail $2 billion per year in such expenditures.

- o Under current rules, social security/private pension plan integration may enable some private plans to discriminate in favor of the higher paid corporate officials and against lower paid employees.

III. SUMMARY OF PRINCIPAL RECOMMENDATIONS

A. The Committee supports:

1. Continuing the role of social security as the principal provider of income for those with below average earning and as a source of retirement income for all but the highest earners,

2. Continuing full cost-of-living adjustments for social security benefits,

3. Adjusting social security survivors' benefit protection by wage increases until benefit eligibility and price increases thereafter, as is the case with retired workers' benefits,

4. Establishing a special income supplement for the elderly aged, those over 75, mostly widows, to be provided through social security,

5. Continuing the weighted benefit formula of social security,

6. Continuing the earnings related formula in part to reward effort and to help meet the goal of preserving the previous level of living,

7. Continuing wage indexing of credited earnings for social security to keep pace with improved living standards,

8. Continuing social security's flexible retirement age arrangements that meet the varying needs of the aging, with

   -reduced benefits from age 62 to 65

   -increased benefits for those who work beyond age 65

   -payments of benefits as a straight annuity beyond age 70,

9. Continuing social security's present retirement test which channels the bulk of benefits to the retired while providing some incentive to those who can and want to work,

10. Using inducements and expanding opportunities, rather than compulsion, to prolong working life,

11. Improving social security's long service minimum benefit,

12. Assuring the short term soundness of social security by: permitting borrowing among the several social security funds, and from the general treasury to meet short-term deficits, enacting a countercyclical general revenue contribution, paying half of Part A Medicare costs from general revenues and shifting half of its payroll tax to social security retirement, survivor, and disability funding,

13. Rebuilding social security reserves to 60 percent of annual benefit outgo to assure their ability to withstand the stresses of recession,

14. Returning social security to its former status outside the unified budget so as to deter short term manipulation motivated by budgetary considerations,

15. Establishing an independent board to insulate this special program from short run political pressures,

16. The improvement of spouses' and divorced persons' rights in social security and pension schemes based on the principle that marriage is an economic partnership,

17. Providing and enhancing survivor benefits in all retirement income programs,

18. Requiring that in private pensions both spouses must agree before survivor benefit options are rejected, at least where they are not estranged.

B. The Committee opposes:

1. Raising the social security retirement age which would cut benefits and strand those under age 65 who need social security benefits because of job displacement or ill health or simply because their life's work has burned them out,

2. Reducing food stamps to the elderly,

3. Imposing mandatory private pension coverage as an impractical costly diversion of funds that can better be used in other ways in current pay and retirement benefits,

4. Liberalizing Keogh and IRA maximum contributions which would largely benefit higher income people while increasing taxes for everyone.

IV. INCOME GOALS--INCOME RECEIVED

A. Poverty Line

The Committee regards the "poverty" line as inappropriately low even as a minimal measure, yet substantial numbers of elderly persons, especially widows over age 75, receive income below the poverty line. The poverty measure is based upon an emergency minimum food budget arbitrarily multiplied by a factor of three. It does not derive from any analysis of what people need at the subsistence level; the basic food allowance purports to be adequate only for a brief emergency period. Even with this appallingly inadequate measure--$3,479 for a single person and $4,390 for a couple in 1979--some 14% of aged families had incomes, both cash and in kind (other than medical benefits) below the poverty level according to latest available data. Some groups fared especially badly; almost three out of every 10 unmarried and widowed women over 65 lived below the poverty level.

We are not assured by those studies which attempt to reduce the number in poverty by crediting them with Medicare and Medicaid. The receipt of medical care does not alleviate a shortage of money--an ill person receiving medical care is not better off than a well person not receiving medical care.

B. Near-Poverty Measure

Since the poverty level is so low, a "near-poverty" measure--125% of the "poverty" measure--is recommended by the Committee. Applying that yardstick to 1979 data, just about one-quarter of the elderly-- 24.5%--fall below the near-poverty line--for a total of 5.9 million persons over 65.

C. Intermediate Budget

Long labor should earn a retirement standard of living that provides necessities and some amenities. A quite modest measure for such a standard is the BLS "Intermediate Budget". In 1978, the budget was $7,846 for retired couples, and using the 1971 White House Conference on Aging recommendations, for single elderly it was $5,885. More than one third of couples and two thirds of single people fell below those still Spartan measures.

D. Income Sources

Social security constituted the source from which most retirees received income and also provided the largest portion of non-work income--49% in 1978. But it replaces less than half of former income for most couples:

ACTUAL EARNINGS REPLACEMENT RATES PROVIDED BY
SOCIAL SECURITY FOR COUPLES RETIRING IN 1968 - 1974

(from the Office of Research and Statistics of the Social Security Administration)

Preretirement Earnings	Actual Replacement Rates
Total	42
$1,000-3,999	63
$4,000-5,999	52
$6,000-7,999	48
$8,000-9,999	45
$10,000-12,499	37
$12,500-14,999	32
$15,000 and over	25

Those receiving income from a second source, such as private or government pensions, fared better; they generally received higher social security benefits than those who received only social security.

V. DISCUSSION OF MAJOR RECOMMENDATIONS

A. Social Security

1. Maintain full cost-of-living adjustment

Social security benefits constitute the only or principal source of income for a majority of retirees. They replace only a portion of pre-retirement earnings. Continued full indexing to the cost of living is vital to avert real deprivation for many and a major drop in the level of living for all, especially in view of the steady decline in the value of private pension and other pension benefits. It is conceivable, though by no means certain, that a better Consumer Price Index (CPI) than that now used to adjust social security benefits to inflation could be developed. Any changes in the composition of the index need to be very carefully considered to make sure that they improve the measurement.

2. Increase benefits for older elderly

A pressing retirement income need is improved income for the elderly 75 and over; they have the fewest sources of income and, especially single women, constitute the largest group of elderly in poverty. Higher social security benefits would provide the quickest, most effective method to meet their increased needs.

3. Maintain present flexible retirement age/benefit arrangements

People age at differing rates: physical and skill demands vary among occupations; illness and disability strike some at early ages; economic opportunities differ by industry and locality. Present retirement age and benefit formulas meet these varying needs and offer incentives to continue work.

The great majority of social security retirees enter benefit status before age 65, usually due to faltering health and/or unemployment; actuarial reduction of benefits begun before age 65 provides an incentive to keep working if health and opportunity permit. The retirement test functions to channel the bulk of benefits to the retired. But it enables people 65 or older with the physical and skill capacity to earn $5500 a year in 1981 without benefit loss; each $2 earned above that reduces benefits by $1. Today no limit at all applies beginning at age 72. Starting in 1982 no limit will apply when a person reaches age 70. These arrangements strike a balance between the need of most to retire before age 70 and incentives to keep working, if able, after age 62. We oppose proposals to change the age at which full benefits are payable to 68 and the age at which reduced benefits are available to 65, thereby stranding those below age 65 without insurance protection should retirement become necessary. We oppose shifting from the insured/earned rights program of social security to a needs-test for that substantial group between the ages of 62 and 65, all the more so because of the low benefit levels of supplementary security income. Even means-tested benefits would be uncertain since SSI now begins only at age 65. The Committee is not persuaded that long term financing requires raising retirement age; we are persuaded it would impose great hardship; we question that raising retirement age will change the age when most Americans do retire since for many that is beyond their control.

4. Incentives to voluntary postponement of retirement preferred

Present law provides the additional incentive of higher social security benefits if retirement is delayed past age 65. If additional measures are sought to prolong working life, instead of raising the age of eligibility for full benefits, we prefer inducement by increasing security benefits along the lines of the recommendation by the National Commission on Social Security.

5. Assuring social security funding

a. The Short Term

Prudent action to rebuild the social security trust funds' reserves can restore confidence in the system's ability to honor its promises in the future. This can be accomplished by authorizing interfund borrowing so that a temporary surplus in one trust fund can be used to cover a temporary deficit in another and by borrowing from the general treasury to meet short-term deficits. In addition, when social security taxes decline in response to high rates of unemployment (a critical source of recent financing difficulties), a countercyclical general revenue contribution should automatically kick in.

To avert future close calls, half of Medicare Part A costs should be financed from general revenues. Seventy percent of the funds from Part B already come from general revenues. If the part of the payroll tax now going to Medicare were reassigned to social security's retirement, survivor, and disability income programs, it would cover the anticipated short run deficits and continue to build a surplus on into the next century.

These measures are not costless. They do mean allocating a somewhat larger portion of income to social security and medicare beneficiaries, albeit from an expectedly enlarged GNP. Polls already indicate the willingness of the electorate to pay more taxes to assure support of the social security system. The Committee is confident that the American people will support such a prudent program to overcome short term close calls and to rebuild reserves for the long haul.

b. The Long Term

The Dependency Ratio - Concern has been expressed over the future ability of social security to meet its commitments, especially to those now in their 20's, 30's, and 40's. The Committee believes that this concern derives from questionable assumptions, dubious analysis, and misplaced emphasis. The issue focuses on the relative numbers of workers to aged dependents, or dependency ratio. Thus, many argue, in 1980 there were 3.2 people working under social security for each person drawing social security benefits. In comparison, by 2020 or 2025, the same ratio arguably will be 2 to 1. From this some conclude that the ratio of workers to dependents will decline and thus imperil the ability of social

security to collect sufficient money to pay benefits in the next century. This analysis is questionable. With relative shrinkage in the age 18-60 group, employment opportunities for the elderly could well improve, transferring a larger portion of them from the "retired" to the "working/support" category. The analysis overlooks that in 1970 the total population dependency ratio was greater than it will be until past 2040. That is, including those in the 0-17 age group, most of whom assuredly are dependent, our economy has already passed the worst stage of the dependency ratio--obviously with comparative ease. The 2 to 1 dependency ratio assumes a rather low birth rate (2.1 per woman). As a result, the relative size of the 0-17 group will shrink, thereby reducing both private and public expenditures now devoted to rearing and training the young. These savings would make it easier for the economy to support the growing ranks of the retired population. Should the birth rate prove to be higher (and some recent evidence shows an upturn), the ranks of the 18-64 group will be larger than projected--thus improving the future ratio.

The ratio also assumes continued immigration only at present legal rates, 400,000 annually. Recently, due largely to the situation in Cuba and southeast Asia, legal immigration has been far higher. Illegal immigration has been uncountable and also apparently unstoppable. Immigrants tend to be much younger than the general population, thus adding to those in childbearing years. Many enter the United States, work under social security and make payroll contributions, but leave long before building up benefit eligibility. Hence the net contribution to social security of both legal and illegal immigration is considerable. According to the estimates by the Office of the Actuary, Social Security Administration, the projected social security deficit over the next 75 years (1980-2054) is 1.58% of taxable payroll (earnings subject to social security taxes). Based on a special analysis of the Office of the Actuary, if net immigration increased from 400,000 to 800,000, the projected deficit would be reduced to 1.04%, that is, by more than one third. If boosted to 1.2 million, the deficit would be cut to 0.58% of taxable payroll, that is, cut by two thirds. Taking all of these factors into account, it is doubtful that anything like the currently projected funding gap will actually materialize.

The role of productivity - The true measure of the ability of the economy to support a retired population depends upon production. Today we live better than in decades past because of greater productivity des-

pite dramatic reductions in time worked and the steady drop in retirement age. When real income increases, higher levels of GNP devoted to social security are more readily borne because they do not reduce living standards.

While real wages have declined recently, over the long haul, rates of productivity should pick up again. Our prodigious inventiveness and technology point that way, despite temporary setbacks, largely due to energy problems. In 1980, social security costs amount to but 4.79% of GNP. With the intermediate assumptions used in projecting by the social security Office of the Actuary, in the year 2000 social security will cost a smaller percent of GNP, namely 4.35%. By 2020-the date by which the some analysts predict a social security doomsday--the portion of GNP would be but 5.66%. With a far higher standard of living caused by steady, if modest, improvement in productivity, the burden of social security upon those working would be less than it is today. This would be all the more true if, as is projected, they will be paying for the care and nurture of proportionately fewer children. Thus, the crucial element in how burdensome the social security program will be in the future is not simply the "dependency ratio" of those over 65 to the group usually thought of as of working age, but rather, fertility rates, immigration rates, labor force participation rates and--most importantly--productivity and economic growth. The Committee cannot guarantee developments favorable to social security in these areas. But we deplore panic predictions based upon questionable assumptions when closer analysis and alternate assumptions at least as reasonable, and probably more reasonable, yield a quite different picture.

Thus the Committee counsels close attention to developments in the key variables affecting long term social security benefits and burdens and responding effectively to those developments as they become less speculative. We caution against a "Dunkirk" approach to social security. As with World War II, improved productivity should prevail in the end.

B. Other Retirement Income Programs

1. Improve vesting and benefits

Private pension plans and and state and local government plans require long service for one employer or industry to achieve benefits, and seldom, if ever, provide any assured adjustment to increases in cost of living. To

the extent that resources allow, these characteristics of such plans should be improved.

2. Improve survivor/divorced person rights

The poorest of the old are survivors, mostly widows. It is urgent that pension plans protect spouses' rights as survivors or in the event of divorce. The Committee endorses the idea of marriage as an economic partnership so that credits and benefits earned during marriage will be shared.

3. Examination of integration of social security and private plan benefits

The Committee believes that there should be a careful examination of the current system of integrating private plans with social security to make sure that lower paid workers are not discriminated against.

SUMMARY

Social security constitutes the mainstay of our nation's elderly, now and in the future. Other programs for private and non-federal government employment can and should supplement it. Savings play a small role in providing continuing cash income for most retirees. Those who can should be helped to work by training, modifications in jobs to meet their abilities, and by operating a full employment, growing economy. Needs tested programs should be only a last resort.

SUPPLEMENTARY VIEW OF VICTOR HRUSKA

I cannot subscribe to this report and its recommendations because the desperate plight of most of the retired Americans is ignored. Over 80 percent of retired Americans (over 20 million) live on incomes from a lifetime of saving, private pensions, and social security. Rampant inflation, averaging 13.5 percent last year, cuts their hard earned savings and pensions in half in 5 years and in 10 years to less than one fourth in real dollars.

Inflation is the arch enemy of all people but is especially cruel to the retired who are tied to a fixed income. It is rapidly driving this largest group of older Americans into poverty. They join those who are eligible for a full panopoly of government provided benefits--including Medicaid, SSI payments, energy payments, food stamps, and public housing. The retiree, after having his life savings destroyed, would be entitled to these need-related benefits which would grossly increase the tax burden on a new generation of middle-income workers. This would cause deplorable socio-economic results by destroying all initiative to save to provide for a better retirement.

The older Americans demand an all out fight against inflation and are willing to help lead this fight. In the short range some relief can be provided the elderly so that they can live with dignity and not be dependent on government largess.

I recommend that IRS follow the lead of states that exempt those over 65 from income tax for the first $10,000 of income from any source, including interest, dividends, and pensions. These 20 million hard-working Americans ask only not to be robbed by inflation and again by taxation and thus driven into poverty. I disagree with the recommendation to use general revenues to finance social security. This step would ruin the "earned right" nature of the program, and would lead to irresponsible liberalizations through the use of deficit spending. Use of general revenue funds would supply justification for those who advocate that social security be on a needs basis.

The following Technical Committee Summaries have been published:

Retirement Income
Health Maintenance and Health Promotion
Health Services
Social and Health Aspects of Long Term Care
Family, Social Services and Other Support Systems
The Physical and Social Environment and Quality of Life
Older Americans as A Growing National Resource
Employment
Creating an Age Integrated Society: Implications for Societal Institutions
Creating an Age Integrated Society: Implications for the Economy
Creating an Age Integrated Society: Implications for the Educational Systems
Creating an Age Integrated Society: Implications for Spiritual Well-Being
Creating an Age Integrated Society: Implications for the Family
Creating an Age Integrated Society: Implications for the Media
Creating an Age Integrated Society: Implications for Governmental Structures
Research in Aging

Experts from various fields were appointed by the Secretary of Health and Human Services to serve on 16 Technical Committees, each charged with developing issues and recommendations in a particular area for consideration as background material for the delegates to the 1981 White House Conference on Aging.